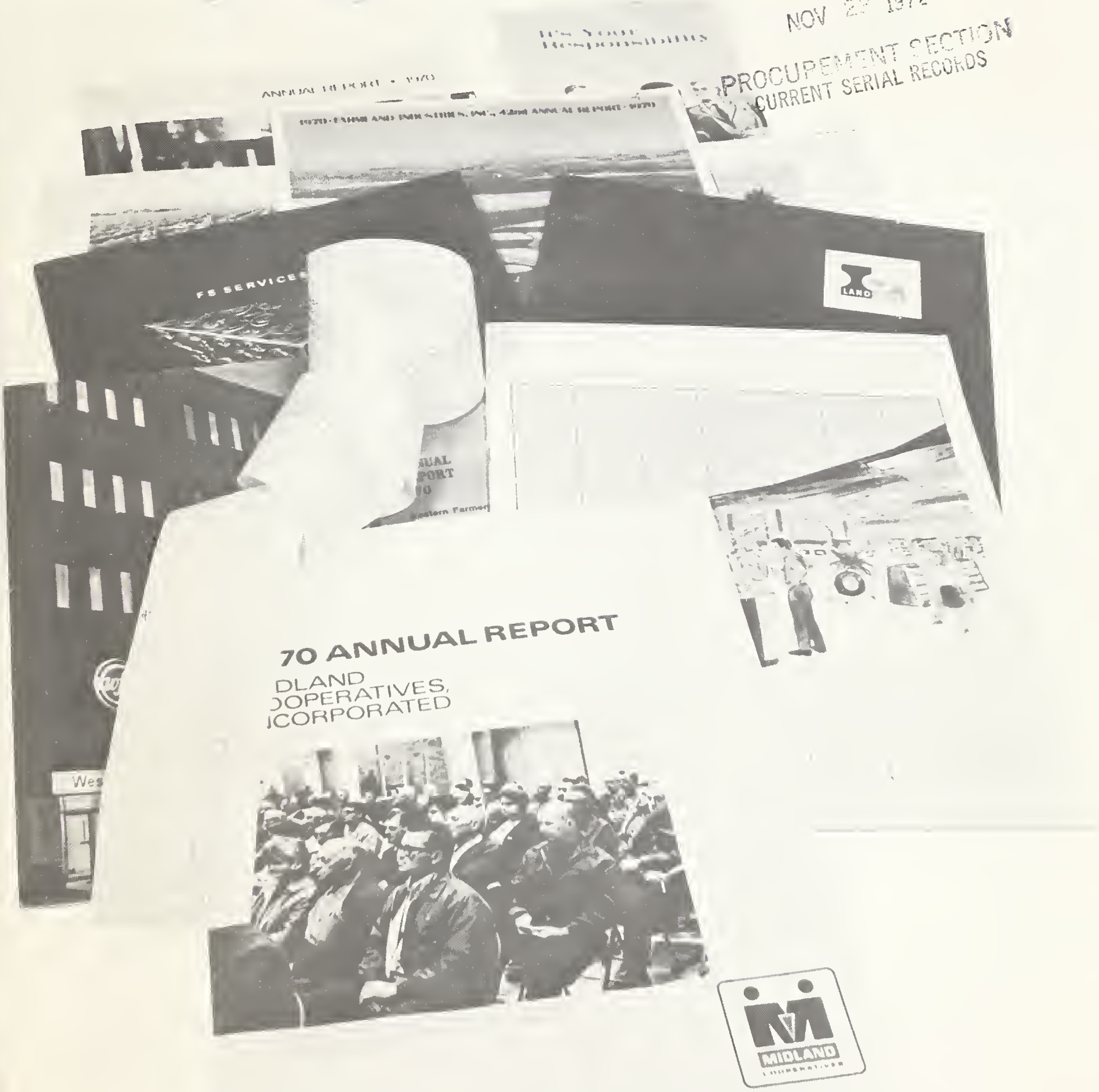
A Financial Profile of Farmer Cooperatives in the United States



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FARMER COOPERATIVE SERVICE
U.S. DEPARTMENT OF AGRICULTURE
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Farmer Cooperative Service provides research, management, and educational assistance to cooperatives to strengthen the economic position of farmers and other rural residents. It works directly with cooperative leaders and Federal and State agencies to improve organization, leadership, and operation of cooperatives and to give guidance to further development.

The Service (1) helps farmers and other rural residents obtain supplies and services at lower cost and to get better prices for products they sell; (2) advises rural residents on developing existing resources through cooperative action to enhance rural living; (3) helps cooperatives improve services and operating efficiency; (4) informs members, directors, employees, and the public on how cooperatives work and benefit their members and their communities; and (5) encourages international cooperative programs.

The Service publishes research and educational materials and issues *News for Farmer Cooperatives.* All programs and activities are conducted on a nondiscriminatory basis without regard to race, creed, color, sex, or national origin.

Acknowledgment is made to Richard P. Parsons, A. Dale Thompson, David Volkin and Roger A. Wissman of Farmer Cooperative Service for their substantial contributions in the planning as well as the collection and analysis of data for preparation of this report.

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~~By~~ N~~elda~~ Griffin

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Highlights

The combined business volume of 7,289 farmer cooperatives for fiscal year 1970 was almost $24 billion. Their net volume, after eliminating intercooperative business was approximately $19 billion. These totals include only farmer marketing, supply, and related service cooperatives.

Combined assets of the 7,289 cooperatives amounted to $8.5 billion at the close of fiscal 1970, compared with $5.3 billion in 1962 and $3.4 billion in 1954. After eliminating intercooperative investments from these gross figures, "net" assets for the 3 years were as follows:

Year	Net assets
	Billion dollars
1970	7.7
1962	4.8
1954	3.1

The 7,289 cooperatives had combined equity capital of $3,950 million at the close of fiscal 1970, compared with $3,057 million in 1962 and $1,914 million in 1954. After eliminating intercooperative investments, "net" equity capital for the 3 years was:

Year	Net equity capital
	Million dollars
1970	3,154
1962	2,559
1954	1,636

Borrowed capital outstanding at the close of fiscal 1970 for the 7,289 cooperatives was $2,766 million. This compares with $1,191 million outstanding in 1962 and $822 million in 1954.

Farmer cooperatives now rely less on members to provide their growing capital needs and increasingly use more borrowed funds in their capital structure. At the close of fiscal 1970, equity capital represented almost 47 percent of total assets of the 7,289 cooperatives, compared with over 57 percent in both 1954 and 1962. Borrowed capital at the close of fiscal 1970 represented almost a third of total assets. This compares with 22 percent in 1962 and 24 percent in 1954.

The average annual increase in assets, equity capital, and borrowed capital for all cooperatives during two successive 8-year periods, 1954-62 and 1963-70, is shown below:

Item	1954-62	1963-70
	Percent	
Assets (net)	7.1	7.4
Equity capital (net)	7.0	2.9
Borrowed capital	5.6	16.5

Net assets of cooperatives increased by 57 percent between 1954 and 1962, net equity capital by 56 percent, and borrowed capital by 45 percent. During 1963-70, assets increased by

59 percent, or at approximately the same rate as in the previous 8-year period. However, during 1963-70, net equity capital increased by only 23 percent, or less than 3 percent per year. This compares with an increase of 132 percent for borrowed capital between 1963 and 1970, an average annual increase of over 16 percent.

Equity Capital.--The $3,950 million equity capital of the 7,289 cooperatives at the close of fiscal 1970 was classified as follows:

Types of equity capital	Percent
Allocated capital:	
Common and preferred stock	37
Equity certificates and credits	50
Unallocated reserves	13

Excluding unallocated reserves of approximately $500 million, the 7,289 cooperatives had allocated equity capital of over $3.4 billion outstanding at the close of fiscal 1970. Of this amount, 14.5 percent was purchased outright by members, patrons, and others. Nearly 71 percent was acquired by patrons through investment of allocated patronage refunds. The remaining 14.6 percent was invested by patrons as a result of per unit capital retains withheld from sales proceeds.

Borrowed Capital.--Total outstanding borrowed capital of the 7,289 cooperatives at the close of fiscal 1970 was $2,766 million. The percentages of borrowed capital, by source, for fiscal years 1970, 1962, and 1954 were:

Sources	1970	1962	1954
Banks for cooperatives	64.2	49.9	45.9
Individuals (debt securities)	19.4	30.1	36.9
Commercial banks	8.3	8.3	8.2
Other sources	8.1	11.7	9.0

Net Savings and Losses.--Net savings of the 7,289 cooperatives for fiscal 1970, adjusted to eliminate net losses and duplication resulting from intercooperative business, amounted to approximately $430 million. If $78 million in capital retains fixed without reference to net savings are added to this figure, the cooperatives had approximately $508 million for distribution to members and patrons based on business for fiscal 1970.

Combined net savings for the cooperatives (excluding all cooperatives with losses and all per unit capital retains) amounted to $506 million for fiscal year 1970. Comparable net savings figures for 1962 and 1954 were $525 million and $332 million, respectively. Distribution of these savings for the 3 years was as follows:

Item	1970	1962	1954
	Percent		
Patronage refunds:			
Cash	41.4	35.5	30.9
Allocated	39.7	50.5	55.6
Dividends and interest	7.1	3.8	3.6
Unallocated	7.0	6.7	5.7
Income taxes	4.8	3.5	4.2

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By Nelda Griffin

SECTION I. FARMER MARKETING AND SUPPLY COOPERATIVES—NATIONAL ESTIMATES

Agricultural cooperatives over the last few decades have been characterized by accelerated growth, diversification, integration, consolidation, and modernization. All these developments have significant financing implications.

If cooperatives are to meet the challenge of our dynamic economy, they must first command the necessary capital. Farmers finance their cooperatives by using most of the standard methods employed by other business corporations plus a few unique to cooperatives, such as revolving funds. They get their capital from members, from banks for cooperatives and other financing institutions, and in some cases from the investing public.

Little more than a generation ago, most agricultural cooperatives were only small associations trying to better the lot of farmers by joint action. They furnished most of the capital needed to operate their cooperatives themselves. As they grew and their business services expanded, the cooperatives found that it was neither wise nor necessary to rely entirely on internal or equity financing to meet all their financial needs. They cautiously began to supplement member investments by bringing in outside capital.

However, many cooperatives over the years have continued to follow a rather static form of organization and have generally followed only traditional and sometimes rather narrow patterns of operation. The traditional approaches to financing are now believed by many to be inadequate for future opportunities. New and even revolutionary approaches are needed if cooperatives are to continue to grow and to become more economically powerful. Adequate financing will be a key factor to both size and progress.

The effective and efficient management of capital resources has become one of the most complex managerial activities in the operation of cooperatives, particularly as overall requirements for capital have expanded. The problems involved in determining capital needs and in fixing priorities for the use of available capital represent highly critical areas of decisionmaking.

Some cooperatives have made progress in altering their financing patterns during the last few years. A permanent or base capital plan designed to replace traditional revolving fund financing is probably the most significant change. However, several other modifications to regular revolving fund programs have been made. Major considerations of the cooperatives in developing new financing plans involve:

- Generation of more permanent capital to replace or supplement traditional revolving types of capital.
- Assuring equitable membership participation in financing.
- Maximizing financial leverage (substituting more borrowed capital for member or equity capital).

Purpose and Scope of Study

The purpose of this study is to provide basic information on the financial structure of farmer cooperatives. The published results will help reduce misunderstanding concerning sources and use of capital by cooperatives.

The study covers all marketing, farm supply, and related service cooperatives in the United States. It does not include farmers' mutual telephone, irrigation, and fire insurance companies, artificial breeding cooperatives, dairy herd improvement organizations, rural electric cooperatives, and credit associations.

The report discusses the various means farmer cooperatives use to accumulate funds to meet their capital needs. It summarizes the financial structure of farmer cooperatives. It analyzes amounts and sources of farmer cooperative borrowings, the nature and amount of equity capital, and the methods used for distributing annual margins and savings.

Since the report is designed primarily as a basic financial reference source, each chapter and section is written as a complete and independent report. Basic definitions and findings appear several times in different sections of the report so that the reader will not have to read the entire report to understand the contents of a particular section.

The data show the financial structure of the cooperatives in total and also by functional, commodity, and geographic groupings. But, regardless of how they are grouped, the cooperatives are not entirely homogeneous. Even those comparable as to overall volume and with similar proportions of marketing and supply business may vary greatly in the composition of their business volume, and thus have different financial problems.

All information included in this report is based on the results of a nationwide survey. The sample consisted of two groups: (1) the largest 100 cooperatives, and (2) a random sample consisting of 667 of the other 7,189 active cooperatives listed with Farmer Cooperative Service at the time of the study. National estimates for all 7,289 cooperatives, including the 100 largest, are provided in the first section of this report. Separate data covering only the 100 largest cooperatives are presented in Section II. Further information on selection of the sample and computation of national estimates appears in appendix I.

The data in Section I suggest some basic differences in financing patterns for farmer marketing and supply cooperatives as a group, by farm products marketed, and by geographic location of the cooperatives. However, financing patterns of the 100 largest cooperatives, as shown in Section II, contributed significantly to the financing patterns of all cooperatives and this should be taken into consideration by the reader. Heavy borrowings, for example, by a few large cooperatives in some cases could dominate the credit picture for an entire group of cooperatives.

A detailed questionnaire was used in collecting the data. Staff members of Farmer Cooperative Service completed the questionnaires by examining audit reports, annual reports, and other financial statements of the sample cooperatives, and in some cases by also conferring with auditors or officers of the cooperatives.

Because of the many variations in accounting and auditing practices and terminology, the financial reports of each cooperative were

examined in detail and necessary adjustments made to insure comparability of data and permit meaningful group totals. Accounting and capital terms throughout the report are defined in appendix II.

The data presented are primarily for fiscal years ending in 1970. However, 1969 data were used for some of the cooperatives when 1970 data were not available.

Two similar studies of financial structure of farmer marketing and supply cooperatives were made by Farmer Cooperative Service based on 1962 and 1954 data. Where comparable, 1970 data are compared in this report with that previously published for 1954 and 1962.[1]

Classification of Cooperatives

Farmer cooperatives cannot easily be divided into two distinct groups—those engaged in marketing farm products and those engaged in providing farm supplies.

Because many cooperatives engage in both marketing and farm supply activities, and because the predominant activity often accounts for little more than half the total dollar volume of business, this report also treats a third functional group or classification of cooperatives—a combination group of cooperatives involved substantially in both marketing and supply activities. For this study, the cooperatives were grouped on the basis of their total business activity as follows:

- *Farm supply.* A cooperative with supply business accounting for two-thirds or more of total dollar volume.
- *Marketing.* A cooperative with marketing of farm products accounting for two-thirds or more of total dollar volume.
- *Marketing/farm supply.* A multipurpose cooperative engaged in both marketing and supply activities with each substantial enough that the other did not account for two-thirds of the total dollar volume.

The cooperatives engaged in marketing activities were also classified by principal products marketed. Tables 1, 2, and 3 show numbers of cooperatives in each of the three major classifications used for the study. In table 1, the cooperatives were grouped according to major function. Table 2 further classifies the cooperatives engaged in marketing by principal products marketed. In table 3, the cooperatives were classified by geographic location of their headquarters.

Table 1.—Volume of business of farmer marketing and supply cooperatives, by major function, fiscal years 1962 and 1970[1]

Classification	Cooperatives		Volume of business	
	1962	1970	1962	1970
	Number		*Million dollars*	
Farm supply	2,592	2,315	2,116	2,588
Marketing[2]	3,371	2,504	9,858	12,673
Marketing/farm supply	2,559	2,470	5,093	8,344
Total	8,522	7,289	17,067	23,605

[1] Intercooperative business has not been eliminated from these figures. Related service cooperatives shown separately in the earlier report for 1962 were reclassified as either marketing or farm supply for 1970 on the basis of service performed (e.g., milk hauling, locker service). Some cooperatives were reclassified between 1962 and 1970, particularly large multipurpose and diversified cooperatives. Adjustments in these volume figures have not been made for these changes in classification.

[2] Includes some cooperatives engaged primarily in bargaining activities.

[1] Griffin, Nelda and Wissman, Roger. Financial Structure of Farmer Cooperatives, Farmer Cooperative Service, U.S. Dept. Agr., Research Report 10, March 1970.
Hulbert, Helim H., Griffin, Nelda, and Gardner, Kelsey B. Methods of Financing Farmer Cooperatives, Farmer Cooperative Service, U.S. Dept. Agr., General Report 32, June 1957.

Table 2.—Volume of business of farmer marketing cooperatives, by principal products marketed, fiscal years 1962 and 1970[1]

Classification	Cooperatives		Volume of business	
	1962	1970	1962	1970
	Number		*Million dollars*	
Diversified marketing/farm supply	121	78	1,028	3,159
Cotton and cotton products—total	504	526	741	714
Marketing	386	414	658	552
Marketing/farm supply	118	112	83	162
Dairy products—total	1,379	826	4,389	5,091
Marketing	963	604	2,312	2,261
Marketing/farm supply	190	80	272	248
Bargaining	226	142	1,805	2,582
Fruits and vegetables—total	619	475	1,444	2,240
Marketing	493	312	1,148	1,616
Marketing/farm supply	93	132	192	467
Bargaining	33	31	104	157
Grain, soybeans, and products—total	2,305	2,221	4,383	5,638
Marketing	374	250	1,215	1,669
Marketing/farm supply	1,931	1,971	3,168	3,969
Livestock and livestock products—total	415	362	1,540	1,950
Marketing and shipping	401	349	1,518	1,913
Marketing/farm supply	14	13	22	37
Wool and mohair—total	109	152	36	25
Marketing	109	150	36	24
Marketing/farm supply	0	2	0	1
Poultry and poultry products—total	138	74	462	460
Marketing	62	37	159	280
Marketing/farm supply	67	32	297	177
Bargaining	9	5	6	3
Rice—total	57	54	226	443
Marketing	46	34	210	376
Marketing/farm supply	11	20	16	67
Sugar—total	64	63	455	651
Marketing	22	18	252	328
Marketing/farm supply	0	2	0	2
Bargaining	42	43	203	321
Nuts—total	27	17	88	169
Marketing	23	9	85	164
Marketing/farm supply	4	8	3	5
Tobacco—total	22	28	69	369
Marketing	22	26	69	363
Marketing/farm supply	0	2	0	6
Dry beans and peas—total	14	13	31	37
Marketing	4	5	19	8
Marketing/farm supply	10	8	12	29

See footnote at end of table.

Table 2.—Volume of business of farmer marketing cooperatives, by principal products marketed, fiscal years 1962 and 1970[1] —Continued

Classification	Cooperatives		Volume of business	
	1962	1970	1962	1970
	Number		*Million dollars*	
Other products—total	156	85	59	71
Marketing	156	75	59	56
Marketing/farm supply	0	10	0	15
Total	5,930	4,974	14,951	21,017
Marketing	3,061	2,283	7,740	9,610
Marketing/farm supply	2,559	2,470	5,093	8,344
Bargaining	310	221	2,118	3,063

[1] Intercooperative business has not been eliminated from these figures. Some cooperatives were reclassified between 1962 and 1970, particularly large multipurpose and diversified cooperatives. Adjustments in these volume figures have not been made for these changes.

As shown in table 1, based on business activity for 1970, approximately a third of the 7,289 cooperatives were classified as farm supply, a third as marketing, and the other third as multipurpose or combination marketing/farm supply.

The 2,315 cooperatives in the farm supply group handled all types of farm production supplies, such as farm chemicals, machinery and equipment, feed, seed, fertilizer, petroleum products, building materials, and containers and packaging supplies. Frozen food locker cooperatives were also included in this classification.

Of the 2,504 marketing cooperatives, 221 were engaged primarily in bargaining activities in 1970. Of these, 142 were bargaining for dairy products, 43 for sugar beets, 31 for fruits and vegetables, and 5 for poultry products. Since many primarily bargaining cooperatives also processed and/or marketed some farm products for their members, the 221 bargaining cooperatives were grouped with the other 2,283 marketing associations (except for identification purposes in table 2).

Table 3.—Volume of business of farmer marketing and supply cooperatives, by farm credit districts, fiscal years 1962 and 1970[1]

Classification	Cooperatives		Volume of business	
	1962	1970	1962	1970
	Number		*Million dollars*	
Springfield	551	388	1,577	1,990
Baltimore[2]	449	343	774	686
Columbia	232	209	819	1,520
Louisville	581	532	1,715	2,397
New Orleans	226	269	434	676
St. Louis	727	593	1,963	3,284
St. Paul	2,388	1,998	3,213	4,387
Omaha	1,260	1,094	1,646	1,833
Wichita	628	552	1,121	1,275
Houston	493	479	730	1,287
Berkeley	454	368	2,133	2,985
Spokane	533	464	942	1,285
Total	8,522	7,289	17,067	23,605

[1] Intercooperative business has not been eliminated from these figures.

[2] Ten cooperatives located in Puerto Rico included for 1962, excluded for 1970.

State and farm credit district	Grand total	Farm supply	Marketing and bargaining								
			Total mktg. & barg.	Cotton and cotton products	Dairy	Fruits and vegetables	Grain and soybeans	Livestock	Poultry and eggs	Wool	Special crops & miscellaneous
Maine	14	5	6	0	1	4	0	1	0	0	0
New Hampshire	6	2	4	0	3	1	0	0	0	0	0
Vermont	14	5	7	0	6	1	0	0	0	0	0
Massachusetts	16	7	7	0	3	1	0	0	1	1	1
Rhode Island	1	1	0	0	0	0	0	0	0	0	0
Connecticut	17	8	7	0	3	3	0	0	1	0	0
New York	273	144	108	0	90	10	0	2	2	1	3
New Jersey	47	12	25	0	5	8	0	1	8	1	2
SPRINGFIELD	388	184	164	0	111	28	0	4	12	3	6
Pennsylvania	118	39	72	0	32	8	0	1	3	28	0
Delaware	8	1	1	0	0	1	0	0	0	0	0
Maryland	42	20	13	0	4	2	0	0	1	0	6
Virginia	110	59	41	0	5	3	1	14	1	11	6
West Virginia	65	23	41	0	5	1	0	7	0	27	1
BALTIMORE	343	142	168	0	46	15	1	22	5	66	13
North Carolina	31	5	18	1	4	6	0	1	1	0	5
South Carolina	19	1	15	2	4	5	0	2	2	0	0
Georgia	65	42	11	1	3	3	0	1	1	0	2
Florida	94	19	49	0	8	32	0	2	1	0	6
COLUMBIA	209	67	93	4	19	46	0	6	5	0	13
Ohio	211	20	39	0	16	7	6	3	3	0	4
Indiana	115	9	10	0	4	2	0	3	0	0	1
Kentucky	80	51	28	0	4	0	0	14	0	2	8
Tennessee	126	89	32	1	4	3	0	1	0	15	8
LOUISVILLE	532	169	109	1	28	12	6	21	3	17	21
Alabama	59	36	13	5	0	0	0	8	0	0	0
Mississippi	124	47	49	35	0	1	4	2	0	3	4
Louisiana	86	28	39	11	3	5	1	0	0	1	18
NEW ORLEANS	269	111	101	51	3	6	5	10	0	4	22
Illinois	336	116	61	0	18	5	29	5	1	0	3
Missouri	166	87	14	0	6	0	1	4	1	2	0
Arkansas	91	43	40	23	0	0	1	0	0	0	16
ST. LOUIS	593	246	115	23	24	5	31	9	2	2	19
Michigan	151	58	43	0	16	13	0	4	0	0	10
Wisconsin	512	225	263	0	163	7	0	80	1	1	11
Minnesota	865	258	353	0	184	0	14	141	2	2	10
North Dakota	470	154	149	0	15	1	104	23	0	3	3
ST. PAUL	1,998	695	808	0	378	21	118	248	3	6	34
Iowa	458	87	70	0	56	2	3	6	0	0	3
South Dakota	267	110	21	0	13	1	5	0	1	0	1
Nebraska	339	124	28	0	5	0	12	2	1	0	8
Wyoming	30	7	15	0	2	0	0	2	0	8	3
OMAHA	1,094	328	134	0	76	3	20	10	2	8	15
Kansas	280	40	15	0	3	0	9	2	0	0	1
Oklahoma	157	18	45	34	0	0	8	1	1	0	1
Colorado	91	30	20	0	6	5	1	0	1	2	5

by principal activities and States and farm credit districts, fiscal year 1970

Marketing/farm supply									
Total mktg./ farm supply	Cotton and cotton products	Dairy	Fruits and vege-tables	Grain and soybeans	Livestock	Wool	Poultry and eggs	Diversi-fied market-ing	Special crops
3	0	0	2	0	0	1	0	0	0
0	0	0	0	0	0	0	0	0	0
2	0	2	0	0	0	0	0	0	0
2	0	0	0	0	0	0	1	0	1
0	0	0	0	0	0	0	0	0	0
2	0	0	0	0	0	0	2	0	0
21	0	0	3	6	0	0	1	11	0
10	0	0	7	3	0	0	0	0	0
40	0	2	12	9	0	1	4	11	1
7	0	1	4	2	0	0	0	0	0
6	0	0	0	0	0	0	0	6	0
9	0	0	1	2	0	0	0	5	1
10	0	0	2	2	0	0	0	6	0
1	0	1	0	0	0	0	0	0	0
33	0	2	7	6	0	0	0	17	1
8	0	0	3	0	1	0	2	2	0
3	0	1	2	0	0	0	0	0	0
12	2	0	0	2	0	0	3	3	2
26	0	0	24	0	0	0	1	0	1
49	2	1	29	2	1	0	6	5	3
152	0	0	6	144	0	1	0	1	0
96	0	0	0	96	0	0	0	0	0
1	0	0	0	0	0	0	0	0	1
5	0	0	1	4	0	0	0	0	0
254	0	0	7	244	0	1	0	1	1
10	1	0	0	7	0	0	0	2	0
28	8	0	0	6	0	0	6	8	0
19	2	0	4	2	0	0	0	0	11
57	11	0	4	15	0	0	6	10	11
159	0	0	1	157	0	0	1	0	0
65	0	0	0	49	1	0	3	12	0
8	5	0	0	1	0	0	1	1	0
232	5	0	1	207	1	0	5	13	0
50	0	0	4	42	0	0	0	5	1
24	0	10	0	12	1	0	1	0	0
254	0	49	3	199	0	0	2	1	0
167	0	0	0	167	0	0	0	0	0
495	0	59	7	420	1	0	3	4	1
301	0	1	0	288	8	0	0	4	0
136	0	1	0	130	2	0	1	2	0
187	0	5	1	181	0	0	0	0	0
8	0	0	0	6	0	0	0	0	2
632	0	7	1	605	10	0	1	6	2
225	0	0	1	223	0	0	0	1	0
94	15	0	0	78	0	0	0	0	1
41	0	0	15	24	0	0	0	1	1

State and farm credit district	Grand total	Farm supply	Marketing and bargaining								
			Total mktg. & barg.	Cotton and cotton products	Dairy	Fruits and vege-tables	Grain and soybeans	Live-stock	Poultry and eggs	Wool	Special crops & miscel-laneous
New Mexico	24	1	16	12	0	3	1	0	0	0	0
WICHITA	552	89	96	46	9	8	19	3	2	2	7
HOUSTON—Texas . .	479	50	303	260	3	9	16	2	1	0	12
Hawaii	17	3	8	0	0	6	0	1	0	0	1
Arizona	15	2	11	2	1	8	0	0	0	0	0
Utah	49	14	29	0	5	5	3	1	1	4	10
Nevada	3	0	3	0	1	0	0	0	0	2	0
California	284	35	191	27	22	118	1	3	5	1	14
BERKELEY	368	54	242	29	29	137	4	5	6	7	25
Alaska	1	0	0	0	0	0	0	0	0	0	0
Montana	161	81	42	0	3	2	10	1	0	20	6
Idaho	64	17	33	0	3	1	1	5	0	13	10
Washington	157	58	60	0	4	29	18	2	0	2	5
Oregon	81	24	36	0	10	21	1	1	1	0	2
SPOKANE	464	180	171	0	20	53	30	9	1	35	23
UNITED STATES . .	7,289	2,315	2,504	414	746	343	250	349	42	150	210

The number of marketing cooperatives (including bargaining) classified by major products marketed in 1970 were:

Classification	Number
Cotton and cotton products	414
Dairy products	746
Fruits and vegetables	343
Grain, soybeans, and products	250
Livestock and livestock products	349
Poultry and eggs	42
Wool and mohair	150
Rice	34
Sugar	61
Nuts	9
Tobacco	26
Dry beans and peas	5
Other products	75
Total	2,504

The "other products" classification in the list above included such farm products as seeds, alfalfa, hay, coffee, flowers and flower bulbs, hops, forest products, tung oil, turpentine, and chinchilla and mink furs.

Relatively few of the coöperatives marketing grain and soybeans in 1970 were classified by major function as marketing, because most grain marketing cooperatives also reported sufficient volume of farm supply business to be classified as marketing/farm supply. Actually, the major farm product marketed by 80 percent of the cooperatives classified as marketing/farm supply was grain or grain products.

A total of 2,470 cooperatives were classified as marketing/farm supply cooperatives. The numbers of these multipurpose associations,

by principal activities and States and farm credit districts, fiscal year 1970—Continued

Marketing/farm supply									
Total mktg./ farm supply	Cotton and cotton products	Dairy	Fruits and vege- tables	Grain and soybeans	Livestock	Wool	Poultry and eggs	Diversi- fied market- ing	Special crops
7	5	0	0	2	0	0	0	0	0
367	20	0	16	327	0	0	0	2	2
126	57	0	2	54	0	0	0	4	9
6	0	1	2	0	0	0	1	0	2
2	1	0	0	1	0	0	0	0	0
6	0	1	1	2	0	0	1	1	0
0	0	0	0	0	0	0	0	0	0
58	16	2	23	3	0	0	3	1	10
72	17	4	26	6	0	0	5	2	12
1	0	1	0	0	0	0	0	0	0
38	0	2	0	35	0	0	0	0	1
14	0	0	2	8	0	0	1	0	3
39	0	0	18	17	0	0	0	2	2
21	0	2	0	16	0	0	1	1	1
113	0	5	20	76	0	0	2	3	7
2,470	112	80	132	1,971	26	2	32	78	50

classified by major farm product marketed, were:

Classification	Number
Diversified marketing/farm supply	78
Cotton/farm supply	112
Dairy/farm supply	80
Fruits and vegetables/farm supply	132
Grain and soybeans/farm supply	1,971
Livestock/farm supply	13
Poultry/farm supply	32
Wool/farm supply	2
Rice/farm supply	20
Sugar/farm supply	2
Nuts/farm supply	8
Tobacco/farm supply	2
Dry beans and peas/farm supply	8
Other products/farm supply	10
Total	2,470

The 78 cooperatives classified as diversified marketing/farm supply were too highly diversified to be classified by products marketed.

In tabulating data for this study, the 2,504 marketing cooperatives and the 2,470 marketing/farm supply cooperatives were classified by major product marketed, as shown in table 2. However in the remaining tables providing information on the basis of product marketed, the two groups of cooperatives engaged in marketing were combined. That is, data for the 414 cotton marketing cooperatives and the 112 cotton marketing/farm supply cooperatives were combined, data for the 746 dairy marketing and 80 dairy marketing/farm supply were combined, etc.

The 4,974 marketing and marketing/farm supply cooperatives combined are shown

throughout the report, by major products marketed, as follows:

Classification	Number
Diversified	78
Cotton and cotton products	526
Dairy products	826
Fruits and vegetables	475
Grain, soybeans and products	2,221
Livestock and wool	514
Poultry products	74
Rice	54
Other products	206
Total	4,974

The 206 cooperatives listed above as marketing "other products" include cooperatives marketing the following products: 63 sugar and sugar products (including 43 sugar beet bargaining cooperatives), 28 tobacco, 17 nuts, 13 dry beans and peas, and 85 other miscellaneous products.

The 7,289 cooperatives were also tabulated by geographic location of their main offices. Table 3 shows the number of cooperatives with headquarters located in each farm credit district. A map of the United States showing States located in each of the farm credit districts appears as figure 1. The 12 farm credit districts were used as a geographic classification because farmer cooperatives use the banks for cooperatives as their major source of borrowed capital.

The numbers of cooperatives with headquarters in each State are shown in table 4 along with principal activity of the cooperatives located in each State and each farm credit district.

As shown in tables 3 and 4, by far the largest number of cooperatives had their headquarters in the St. Paul district—27 percent of all 7,289 cooperatives. The second largest number, 15 percent of the total, were located in the Omaha district. The smallest numbers of cooperatives were located in the Columbia and New Orleans districts.

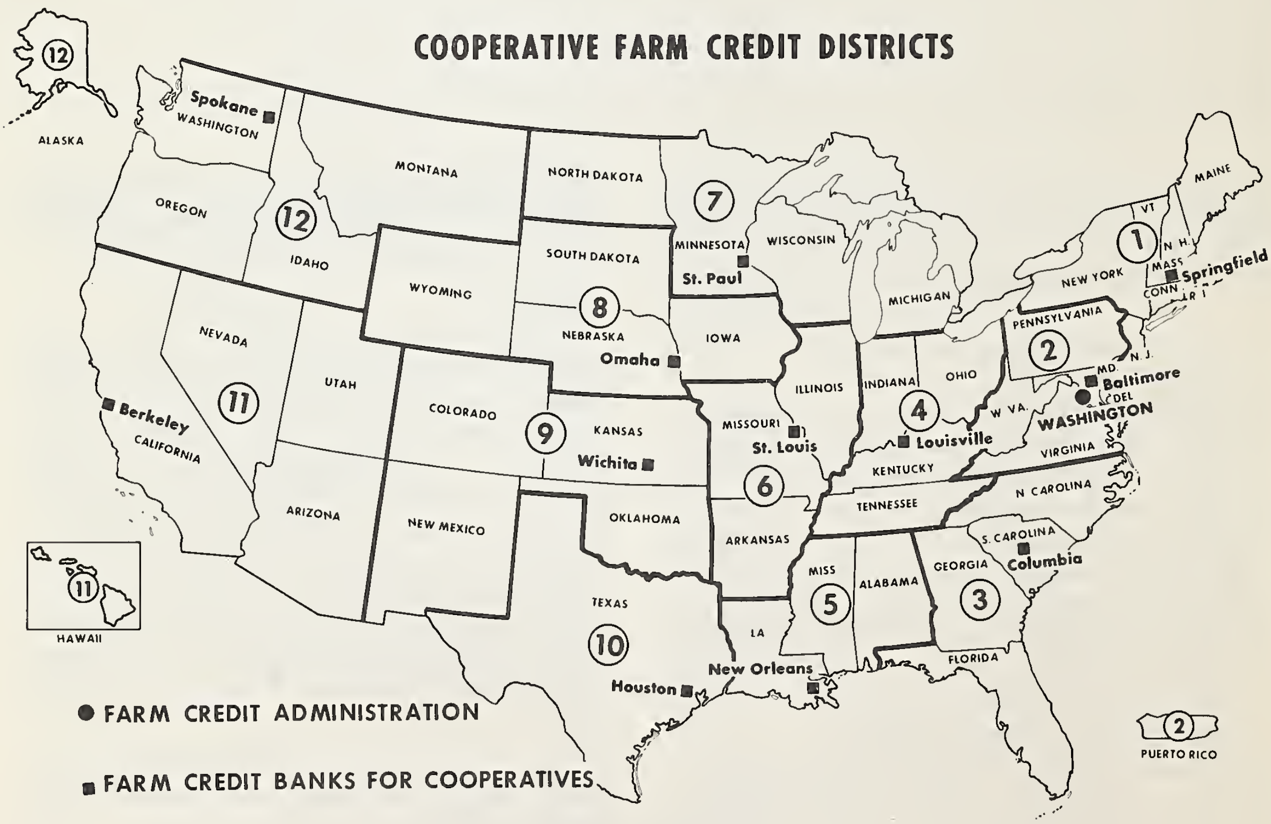

FIGURE 1

Volume of Business

The 7,289 farmer marketing and supply cooperatives reported a combined annual business volume of almost $24 billion for their fiscal years ending in 1970. This is a gross figure. Intercooperative business of approximately $5 billion has not been eliminated.

The comparable gross volume figure for 8,522 cooperatives for fiscal year 1962 was $17 billion, representing an increase in gross volume of business for the 8-year period of 38 percent. If the 1970 volume figure is adjusted to eliminate inflation, using 1962 as a base, the increase for the 8-year period was approximately 8 percent, or an average annual increase of 1 percent.

Table 1 shows that the 2,315 farm supply cooperatives had a total 1970 business volume of $2.6 billion, or about 11 percent of the $24 billion total. The 2,504 marketing cooperatives reported 54 percent of the total volume, and the 2,470 marketing/farm supply group the other 35 percent.

As shown in table 2, the 221 cooperatives engaged primarily in bargaining activities in 1970 reported total business volume of $3 billion. This amount is included in the $12.7 billion reported for all marketing cooperatives in table 1. The $3 billion volume of business figure for bargaining cooperatives represents the value of farm products bargained for by this group of cooperatives—not sales or marketing receipts, except in cases where the predominantly bargaining cooperatives also performed other functions.

Table 2 shows gross volume of business for 1970 and for 1962 for all cooperatives engaged in marketing farm products, classified by principal products marketed.

The figures shown in table 2 for cooperatives handling livestock and livestock products represent the value of the livestock for those cooperatives operating on a commission basis—not marketing receipts of the cooperatives. Of the 1,540 cooperatives handling livestock in 1970, 216 were small local livestock trucking or shipping cooperatives (all located in the St. Paul farm credit district). These livestock shipping cooperatives were mostly unincorporated, had very little capital of any kind, and their volume of business was very small.

Likewise, a majority of the wool marketing cooperatives were primarily unincorporated small county or local wool pools with small volume and very little capital.

Table 3 shows comparable volume of business figures when the data were tabulated on the basis of location of headquarters by farm credit districts. The St. Paul district, with 27 percent of the total number of cooperatives, reported almost 19 percent of the total business volume. The St. Louis district, representing 8 percent of total cooperatives, reported 14 percent of total business volume. Next largest total volume figure was reported by the cooperatives with headquarters in the Berkeley district, with almost 13 percent, followed by the Louisville district with 10 percent.

Financial Structure

The balance sheet is a basic record of business organizations that shows financial condition at a particular date. A comparison of the financial structure of farmer marketing and supply cooperatives, as shown by combined balance sheet data, is presented in figure 2 for fiscal years ending in 1954, 1962, and 1970. Dollar figures for the 3 years are shown in table 5.

As shown by these figures, combined assets for all farmer marketing and supply cooperatives reached a total of almost $8.5 billion in 1970. This compares with $5.3 billion in 1962 and less than $3.4 billion in 1954.

When all intercooperative investments, such as stock or other equity owned by one cooperative in another, or patronage refunds retained by a federated cooperative for capital purposes and appearing on the books of the member association, were eliminated from the gross figures shown in table 5, "net" assets of the cooperatives for the 3 years were estimated as follows:

Year	"Net" assets
	Million dollars
1954	3,073
1962	4,825
1970	7,682

Cooperatives have traditionally relied heavily on internally generated capital, but figures for fiscal year 1970 provide evidence of a definite trend toward an increasing use of borrowed capital. Between 1954 and 1962, the financial structure of cooperatives was almost static—members were supplying approximately 57 percent of the capital for their cooperatives in 1954 and in 1962. By the close of fiscal year 1970, the members' share of total capital had dropped to less than 47 percent and borrowed capital had increased to almost a third of total assets. Liabilities other than borrowed capital accounted for approximately 20 percent of total assets for all 3 years—1954, 1962, and 1970. Other liabilities include such items as accounts payable, proceeds payable, and deferred and accrued items.

Table 5.—Comparison of financial structure of farmer marketing and supply cooperatives for fiscal years ending in 1954, 1962, and 1970[1]

Fiscal year	Cooperatives	Assets	Equity capital	Borrowed capital	Other liabilities
	Number	*Million dollars*			
1954[2]	9,793	3,351	1,914	821	616
1962	8,522	5,323	3,057	1,191	1,075
1970	7,289	8,477	3,950	2,766	1,761

[1] These are gross figures, intercooperative investments have not been eliminated. All certificates fixed as to amount and maturity date are included with borrowed capital for all 3 years. This required an adjustment for 1962 of $159 million and for 1954 of $173 million.

[2] Assets and borrowed capital for 1954 do not include $266 million of Commodity Credit Corporation loans to tobacco cooperatives. Data for 1954 also excludes 264 bargaining cooperatives.

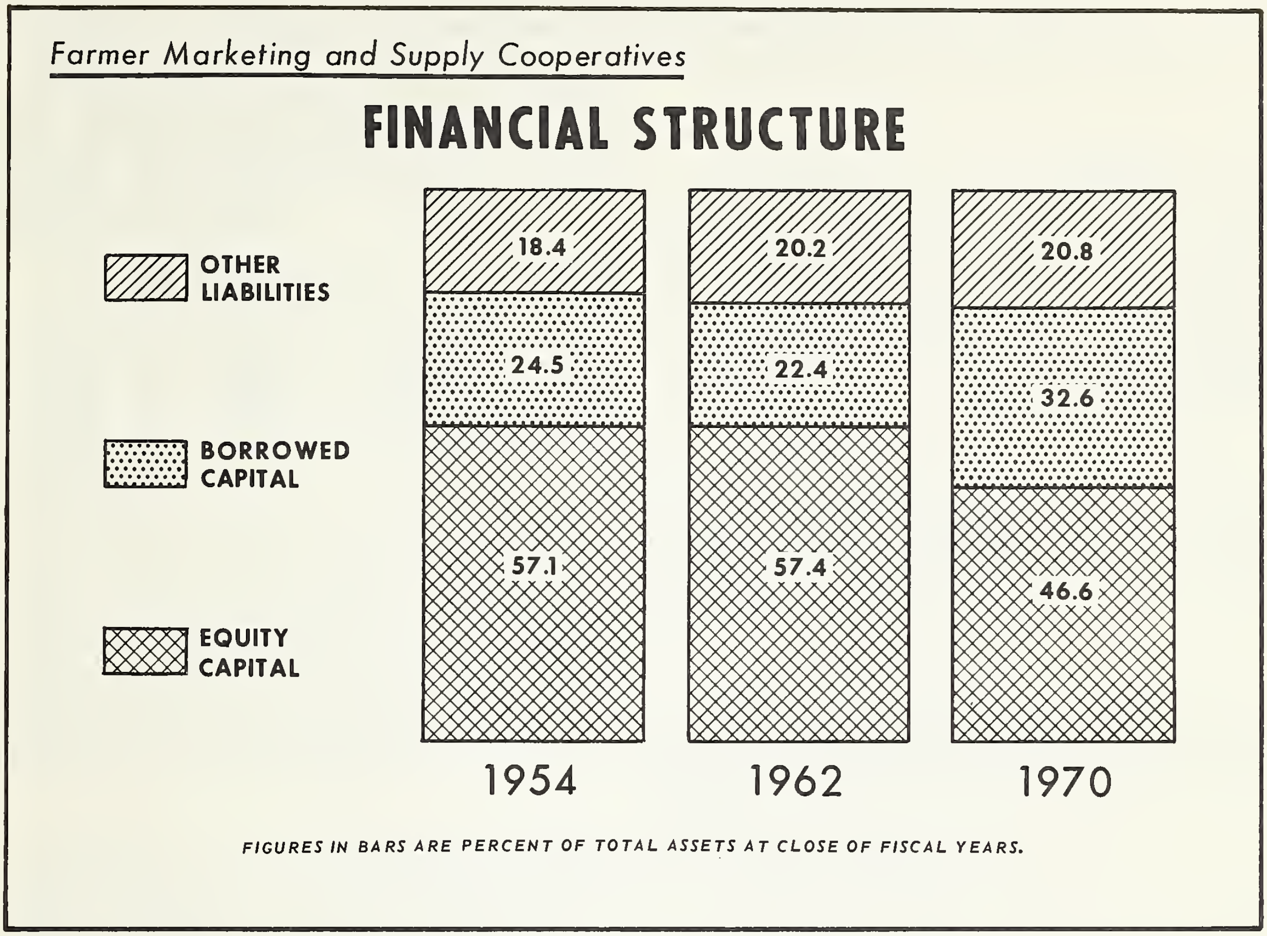

FIGURE 2

Capital requirements and the capital structure of cooperatives varied somewhat according to the major function or activity—whether they were engaged in marketing various farm products, bargaining, processing, handling farm supplies, or in several of these functions.

Combined 1970 balance sheet data for all 7,289 cooperatives, with the cooperatives classified by major function, are shown in table 6.

The 2,315 farm supply cooperatives had combined assets of $1.7 billion at the close of the fiscal year. Member capital accounted for 56 percent of this amount, 27 percent was borrowed, and other liabilities accounted for the remaining 17 percent.

Combined assets of the 2,504 marketing cooperatives was $3.1 billion. Of this, 43 percent was equity capital, 31 percent was borrowed capital, and 26 percent was classified as other liabilities. Other liabilities in marketing cooperatives accounted for a larger percentage of total assets than in the case of cooperatives handling farm supplies. This was primarily because substantial amounts of proceeds payable to members in settling accounts or closing pools of the marketing cooperatives appeared on the balance sheets as current liabilities until final payment for the products or settlement of pools.

Table 6.—Balance sheet data for 7,289 farmer marketing and supply cooperatives, by major function, at close of fiscal year 1970

Classification	Cooperatives	Total assets	Percentage of total assets represented by —		
			Equity capital	Borrowed capital	Other liabilities
	Number	*Million dollars*	*Percent*		
Farm supply	2,315	1,668	56.4	27.0	16.6
Marketing	2,504	3,138	43.0	31.4	25.6
Marketing/farm supply	2,470	3,671	45.2	36.3	18.5
Total	7,289	8,477	46.6	32.6	20.8

Table 7.—Balance sheet data for 4,974 farmer marketing cooperatives, by principal products marketed, at close of fiscal year 1970[1]

Classification	Cooperatives	Total assets	Percentage of total assets represented by —		
			Equity capital	Borrowed capital	Other liabilities
	Number	*Million dollars*	*Percent*		
Diversified	78	1,440	37.6	46.0	16.4
Cotton and cotton products	526	305	62.6	17.5	19.9
Dairy products	826	1,138	47.0	20.5	32.5
Fruits and vegetables	475	1,129	32.8	44.6	22.6
Grain, soybeans and products	2,221	2,217	49.0	32.0	19.0
Livestock and wool	514	72	46.8	28.6	24.6
Poultry products	74	95	52.4	26.4	21.2
Rice	54	135	48.8	21.3	29.9
Other products[2]	206	278	48.2	28.6	23.2
Total	4,974	6,809	44.2	34.0	21.8

[1] Of 7,289 marketing and supply cooperatives, 2,504 were classified as marketing, 2,470 as combination marketing/farm supply, and 2,315 as farm supply. This table includes both groups engaged in marketing shown by principal products marketed.

[2] Includes cooperatives handling the following products: 63 sugar (including 43 sugar beet bargaining), 28 tobacco, 17 nuts, 13 dry beans and peas, and 85 miscellaneous products.

The 2,470 cooperatives marketing farm products and providing farm supplies had combined assets of almost $3.7 billion at the close of their 1970 fiscal years. Equity capital of this group of cooperatives accounted for 45 percent of the total capital. Borrowed capital accounted for 36 percent and other liabilities for nearly 19 percent.

The balance sheet structure of cooperatives not only varied by major function but also for the marketing cooperatives according to principal products marketed. The financial position of cooperatives engaged in marketing farm products is shown separately in table 7 by commodity classifications.

The 78 diversified cooperatives—those marketing several farm products and also providing farm supplies—had combined assets of $1,440 million in 1970.[2] Equity capital accounted for almost 38 percent of the total assets of the 78 cooperatives, borrowed capital accounted for 46 percent, and other liabilities for 16 percent.

Members of cotton marketing cooperatives were supplying a larger percentage of total capital requirements of their cooperatives in 1970 than were members of cooperatives marketing other major farm products. The 526 cotton marketing cooperatives had combined assets of $305 million. Members supplied almost 63 percent of this, 17 percent was borrowed, and other liabilities accounted for the remaining 20 percent.

Members of fruit and vegetable marketing cooperatives were supplying a smaller percentage of the total capital requirements of their cooperatives than were members of other marketing cooperatives in 1970. The 475 fruit and vegetable marketing cooperatives had combined assets of $1.1 billion at the close of the fiscal year. Equity capital accounted for 33 percent of this, borrowed capital for almost 45 percent, and other liabilities for the remaining 22 percent.

Almost 45 percent of the 4,974 cooperatives engaged in marketing farm products in 1970 were marketing grain and grain products. The 2,221 cooperatives in this group had total assets in 1970 of $2.2 billion. Members supplied 49 percent of this capital, 32 percent was borrowed, and 19 percent was in the form of other liabilities.

Table 7 provides similar data on financial structure for cooperatives marketing dairy products, poultry products, livestock and wool, and rice.

Balance sheet data for the 7,289 farmer marketing and supply cooperatives are shown in table 8 for fiscal year 1970 by farm credit districts.

A comparison of the number of associations classified by farm credit districts, and percentage of total assets and net worth owned by associations located in each district, are shown in table 9 for fiscal years 1962 and 1970.

Cooperatives with headquarters located in the St. Paul and St. Louis districts reported the largest percentages of total assets and equity capital for 1970. Associations located in these two districts also had the largest percentages of total volume of business.

Equity capital in 1970 as a percentage of total assets was greater for the cooperatives with headquarters located in the St. Paul, Omaha, and Wichita districts than in any of the other districts. Equity capital as a percentage of total assets was lowest for cooperatives in the Springfield, Spokane, and Berkeley districts.

[2] Ninety-eight percent of this was reported by 14 of the largest 100 cooperatives. Financial data for the largest 100 are shown separately in Section II of this report.

Table 8.—Balance sheet data for 7,289 farmer marketing and supply cooperatives, by farm credit districts, at close of fiscal year 1970

Classification	Cooperatives	Total assets	Percentage of total assets represented by —		
			Equity capital	Borrowed capital	Other liabilities
	Number	*Million dollars*	*Percent*		
Springfield	388	650	34.0	43.7	22.3
Baltimore	343	315	49.8	31.7	18.5
Columbia	209	494	44.7	35.0	20.3
Louisville	532	660	44.1	36.5	19.4
New Orleans	269	340	46.8	37.9	15.3
St. Louis	593	1,186	42.8	36.3	20.9
St. Paul	1,998	1,588	55.5	23.1	21.4
Omaha	1,094	745	52.8	27.8	19.4
Wichita	552	575	52.3	30.6	17.1
Houston	479	460	49.6	27.8	22.6
Berkeley	368	990	41.2	34.0	24.8
Spokane	464	474	38.2	40.7	21.1
Total	7,289	8,477	46.6	32.6	20.8

Table 9.—Number of marketing and farm supply cooperatives and percentage of total assets and equity capital represented by cooperatives with headquarters located in each farm credit district, fiscal years 1962 and 1970

Farm credit district	Cooperatives		Percentage of total number of cooperatives		Percentage of total assets		Percentage of total equity capital	
	1962	1970	1962	1970	1962	1970	1962[1]	1970
	Number		*Percent*					
Springfield	551	388	6.5	5.3	7.0	7.7	5.9	5.6
Baltimore	449	343	5.3	4.7	5.1	3.7	5.4	4.0
Columbia	232	209	2.7	2.9	5.5	5.8	4.6	5.6
Louisville	581	532	6.8	7.3	8.0	7.8	8.4	7.4
New Orleans	226	269	2.6	3.7	2.8	4.0	2.9	4.0
St. Louis	727	593	8.5	8.1	11.0	14.0	9.7	12.9
St. Paul	2,388	1,998	28.0	27.4	19.2	18.7	20.3	22.3
Omaha	1,260	1,094	14.8	15.0	8.8	8.8	9.7	9.9
Wichita	628	552	7.4	7.6	7.4	6.8	8.5	7.6
Houston	493	479	5.8	6.6	4.2	5.4	4.8	5.8
Berkeley	454	368	5.3	5.0	13.7	11.7	12.6	10.3
Spokane	533	464	6.3	6.4	7.3	5.6	7.2	4.6
Total	8,522	7,289	100.0	100.0	100.0	100.0	100.0	100.0

[1] Adjusted to show all certificates fixed as to amount and maturity date as debt capital.

Equity Capital

Equity or risk capital provides the necessary element of ownership and control that any business organization must have. It serves as a buffer for creditors to absorb operating losses and shrinkage in asset values.

Combined equity capital of the 7,289 farmer marketing and supply cooperatives at the close of fiscal year 1970 amounted to $3,950 million. This compares with $3,057 million in 1962 and $1,914 million in 1954. These are all gross figures, since many of the cooperatives had intercooperative investments.

When intercooperative investments were eliminated, as shown in table 10, "net" equity capital was $3,154 million for 1970, almost $2,559 million for 1962 and $1,636 million for 1954. No capital certificates fixed as to amount and maturity date were included in these equity capital figures. The above equity capital figures resulting from studies for 1962 and 1954 have been adjusted to exclude all maturity-dated certificates.

Estimates of farmers' net equities in their marketing and farm supply cooperatives were also made by Farmer Cooperative Service for 1949 and 1950 fiscal years. The estimate for 1949 was $1,148 million and for 1950, $1,298 million.

These estimates of farmers' equities in their marketing and farm supply cooperatives do not represent identical associations for each year. Rather, they represent the total equity capital in all marketing and farm supply cooperatives at the time the studies were made. Each year new cooperatives are formed and others disappear as cooperatives go out of business due to consolidations, mergers, or unsuccessful operations.

Between 1949 and 1950, farmers' net equities in their marketing and farm supply cooperatives increased by about 13 percent. From 1950 to 1954, using 1950 as a base, they increased by 26 percent, or an average annual increase over the 4-year period of 6.5 percent.

Table 10.—Comparison of "net" equity capital of farmer marketing and supply cooperatives for fiscal years 1954, 1962, and 1970[1]

Fiscal year	Cooperatives	Gross equity capital	Inter-cooperative investments	Net equity capital
	Number		*Thousand dollars*	
1954	9,793	1,913,945	278,320	1,635,625
1962	8,522	3,056,629	498,000	2,558,629
1970	7,289	3,949,713	795,675	3,154,038

[1] No certificates fixed as to amount and maturity date are included in these figures. $159 million for 1962 and $173 million for 1954 has been reclassified as borrowed capital.

Between 1954 and 1962, using 1954 as a base, farmers' net equities increased by 56 percent, or an average annual increase for the 8-year period of 7 percent.

Between 1962 and 1970, using 1962 as a base, farmers' net equities increased by only 23 percent. This means an average annual increase of less than 3 percent. If the net equity figure for 1970 is adjusted to eliminate inflation, the percentage change for the 8-year period (1963-70) was a decrease of 4 percent, or an average annual decrease of one-half of 1 percent.

TYPES AND AMOUNTS OF EQUITY CAPITAL

Types and amounts of equity capital reported by the 7,289 farmer marketing and supply cooperatives at the close of fiscal year 1970 are shown in table 11.

Of the total equity of $3.9 billion, over 37 percent was in the form of capital stock. Another 50 percent of total equity was allocated to individual patrons as capital credits, including amounts allocated only on the books as well as amounts for which equity certificates were issued. Unallocated reserves accounted for the remaining 13 percent of the total equity capital.

Some nonstock cooperatives issued membership certificates to qualified farmers to denote membership or voting rights. Less than 1 percent of total equity capital was in the form of nonstock membership certificates, however. These certificates are included as a part of allocated equity certificates.

Common stock is generally used as the voting or membership stock by cooperatives organized with capital stock. Very definite limitations regarding ownership, transfer, surrender, cancellation. loss of voting power, etc., are usually included in the articles of incorporation and printed on the face of "voting" stock certificates. This is because ownership and control must remain with farmer members if an association is to qualify as a farmer cooperative under the Capper-Volstead Act and various State laws.

Table 11.—Types of equity capital used by 7,289 farmer marketing and supply cooperatives, by major function, fiscal year 1970

Classification	Cooperatives	Total equity capital	Percentage of total equity capital represented by —		
			Allocated capital		Unallocated reserves
			Common and preferred stock	Equity certificates and credits	
	Number	*Million dollars*	*Percent*		
Farm supply	2,315	941	58.2	26.3	15.5
Marketing	2,504	1,350	23.4	71.1	5.5
Marketing/farm supply	2,470	1,659	36.6	46.1	17.3
Total	7,289	3,950	37.2	49.9	12.9

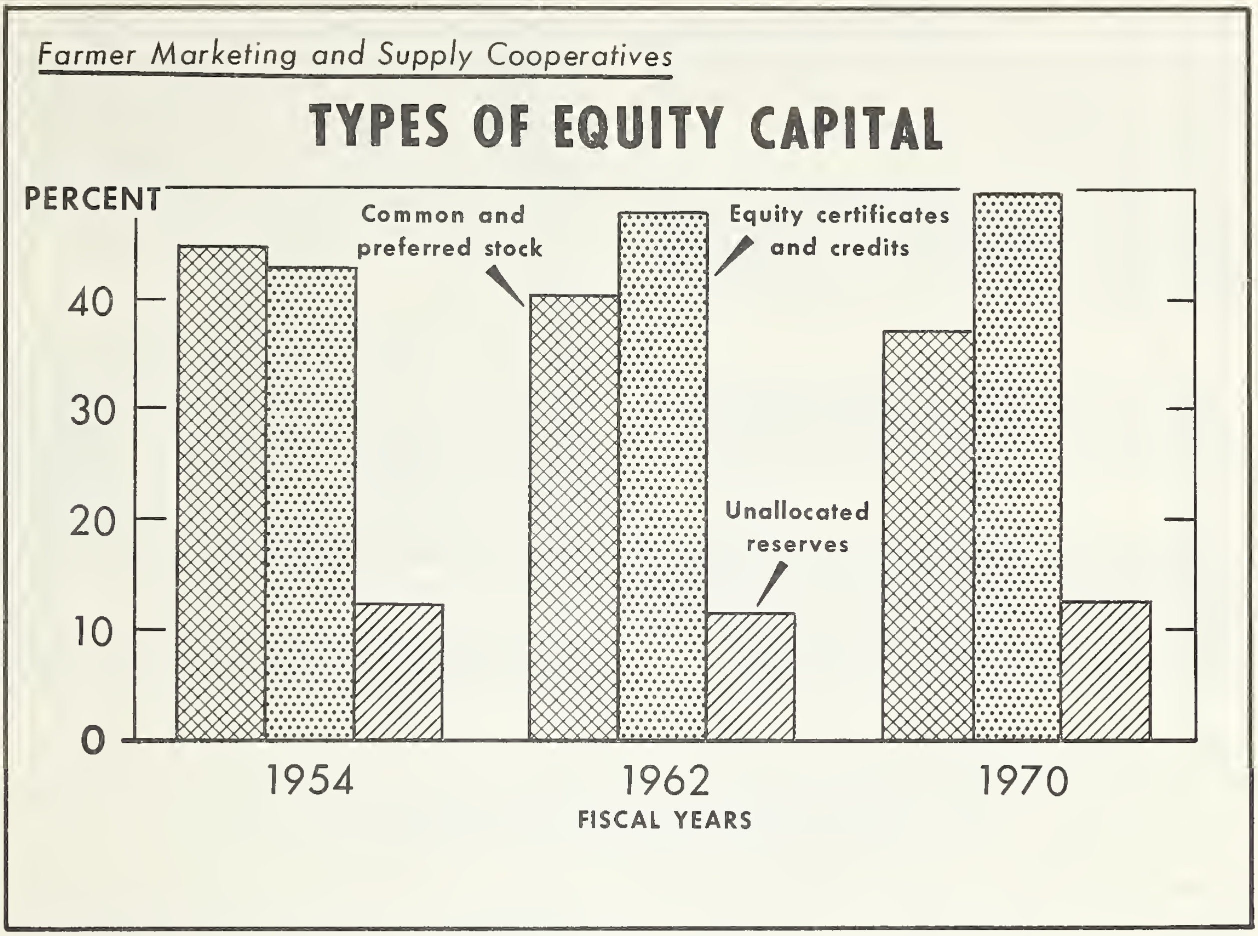

FIGURE 3

Regardless of the type of certificate used, funds derived from sale of voting stock are generally only of nominal importance. Therefore, in order to acquire additional capital, many stock cooperatives issue one or more classes of nonvoting capital stock. This stock is classified as common stock by some cooperatives and as preferred by others. Since State cooperative and corporation laws vary, there is no uniform system of classification. Consequently, nonvoting capital stock classified as common by one cooperative may be essentially the same as that classified as preferred by another. No distinction is made between common and preferred stock in this study.

The relative importance of various types of equity capital used by farmer cooperatives has changed very little since 1954. A comparison of the percentages of total equity capital, by types, is shown in figure 3 for 1954, 1962, and 1970 fiscal years. Over the 16-year period the percentage represented by capital stock dropped from 45 to 37 percent, while the percentage of equity certificates and credits increased from 43 to 50 percent. Unallocated reserves represented roughly 12 percent of total equity capital in 1970, as it did in 1954 and 1962.

Tables 11 and 12 show that the relative importance of various types of equity capital varied considerably when the cooperatives were classified by functional and commodity groups.

About 58 percent of the equity capital of the 2,315 farm supply cooperatives was in the form of capital stock, whereas capital stock of the 2,504 marketing cooperatives amounted to only 23 percent of their total equity. The 2,470 cooperatives classified as marketing/farm supply had capital stock amounting to nearly 37 percent of their total equity capital.

Equity certificates and allocated capital credits, on the other hand, accounted for 26 percent of total equity capital of the farm supply

cooperatives and 71 percent of total equity of the marketing group. They accounted for 46 percent of total equity of the marketing/farm supply cooperatives.

Unallocated reserves accounted for 15 percent of the total equity capital of the farm supply cooperatives, 5 percent of the marketing associations, and 17 percent of the marketing/farm supply group.

Table 12 shows the relative importance of various types of equity capital used by cooperatives engaged in various marketing activities in 1970.

Capital stock accounted for a much greater percentage of total equity capital of cooperatives marketing grain, rice, and cotton than for those marketing poultry, livestock and wool, dairy products, and fruits and vegetables.

Unallocated reserves (tax-paid surplus) as a percentage of total equity capital of marketing cooperatives varied all the way from a negative balance for the cooperatives marketing poultry to a high of almost 43 percent for the livestock and wool group. As indicated earlier, a majority of the livestock and wool cooperatives are small unincorporated associations operating with very little capital.

Of the major groups of marketing cooperatives—cotton, dairy, fruits and vegetables, and grain—only the grain cooperatives had any substantial amount of their equity capital not allocated to members. Unallocated reserves of the grain cooperatives amounted to 17 percent of their total equity capital, compared with 2 percent or less for the cotton, dairy, and fruit and vegetable cooperatives.

Cooperatives included in the "diversified" and "other products" classifications shown in table

Table 12.—Types of equity capital used by 4,974 marketing cooperatives, by principal products marketed, fiscal year 1970[1]

Classification	Cooperatives	Total equity capital	Percentage of total equity capital represented by —		
			Allocated capital		Unallocated reserves
			Common and preferred stock	Equity certificates and credits	
	Number	*Million dollars*	*Percent*		
Diversified	78	542	36.4	41.8	21.8
Cotton and cotton products	526	191	39.5	58.4	2.1
Dairy products	826	535	14.2	83.1	2.7
Fruits and vegetables	475	371	16.4	82.5	1.1
Grain, soybeans and products	2,221	1,087	40.2	42.7	17.1
Livestock and wool	514	33	12.7	44.7	42.6
Poultry products	74	50	3.8	98.0	(-1.8)
Rice	54	66	39.9	59.7	0.4
Other products[2]	206	134	32.9	50.8	16.3
Total	4,974	3,009	30.7	57.3	12.0

[1] Of 7,289 marketing and supply cooperatives, 2,504 were classified as marketing, 2,470 as combination marketing/farm supply, and 2,315 as farm supply. This table includes both groups engaged in marketing shown by principal products marketed.

[2] Includes cooperatives handling the following products: 63 sugar (including 43 sugar beet bargaining), 28 tobacco, 17 nuts, 13 dry beans and peas, and 85 miscellaneous products.

Table 13.—Types of equity capital used by 7,289 farmer marketing and supply cooperatives, by farm credit districts, fiscal year 1970

Classification	Cooperatives	Total equity capital	Percentage of total equity capital represented by —		
			Allocated capital		Unallocated reserves
			Common and preferred stock	Equity certificates and credits	
	Number	*Million dollars*	- - - - - - - - - - *Percent* - - - - - - - - - -		
Springfield	388	221	28.9	24.1	47.0
Baltimore	343	157	47.3	39.9	12.8
Columbia	209	221	20.2	76.6	3.2
Louisville	532	291	66.2	29.7	4.1
New Orleans	269	159	53.6	42.9	3.5
St. Louis	593	508	45.8	35.9	18.3
St. Paul	1,998	882	35.5	60.8	3.7
Omaha	1,094	393	21.2	58.4	20.4
Wichita	552	301	53.5	23.2	23.3
Houston	479	228	40.7	55.8	3.5
Berkeley	368	408	10.9	80.1	9.0
Spokane	464	181	16.4	85.6	(-2.0)
Total	7,289	3,950	37.2	49.9	12.9

12 had relatively high percentages of unallocated reserves. Combined equity capital for these two groups was $676 million in 1970. Of this amount, $618 million was reported by 20 of the 100 largest cooperatives.

Amounts and types of equity capital reported by the 7,289 cooperatives are shown by farm credit districts in table 13. Types varied considerably by districts. For example, capital stock ranged from less than 11 percent of total equity capital of the cooperatives with headquarters located in the Berkeley district to 66 percent in the Louisville district.

Cooperatives with a relatively large percentage of their total equity capital in the form of capital stock obviously had a much smaller percentage represented by equity certificates and allocated capital credits. The cooperatives located in the Louisville district had less than 30 percent of their total equity in the form of equity certificates and allocated credits, compared with 80 percent for those located in the Berkeley district.

Other farm credit districts with high percentages of equity capital represented by capital stock were the New Orleans and Wichita districts with nearly 54 percent each, the Baltimore district with 47 percent, and the St. Louis district with 46 percent.

Unallocated reserves ranged from a negative balance for cooperatives in the Spokane district to 47 percent of total equity capital of cooperatives in the Springfield district. Other farm credit districts with high percentages of unallocated equity capital were the Wichita district with 23 percent, the Omaha district with 20 percent, and the St. Louis district with 18 percent. The Columbia, New Orleans, Houston, St. Paul, and Louisville districts each had only 3 to 4 percent of their total equity in unallocated reserves.

Members and patrons provide the equity or risk capital for their cooperatives in three ways:

- They purchase capital stock or other securities.
- They invest a portion of their savings or margins.
- They contribute capital through deductions from sales proceeds in the form of per unit capital retains.

Two of these methods, and occasionally all three, are usually used by the same cooperative.

Retained patronage refunds are savings or margins realized in operations and held by cooperatives as additions to capital. These deferred payments are often returned to patrons on a revolving fund basis.

Per unit capital retains are those investments made by patrons in compliance with a bylaw provision or membership agreement. The agreement authorizes the cooperative to make a specified deduction for capital purposes from advances to patrons based on physical units handled (bushel, hundredweight, dozen, etc.) or a percentage of sales returns.

When total unallocated reserves of $508 million (which were primarily undistributed

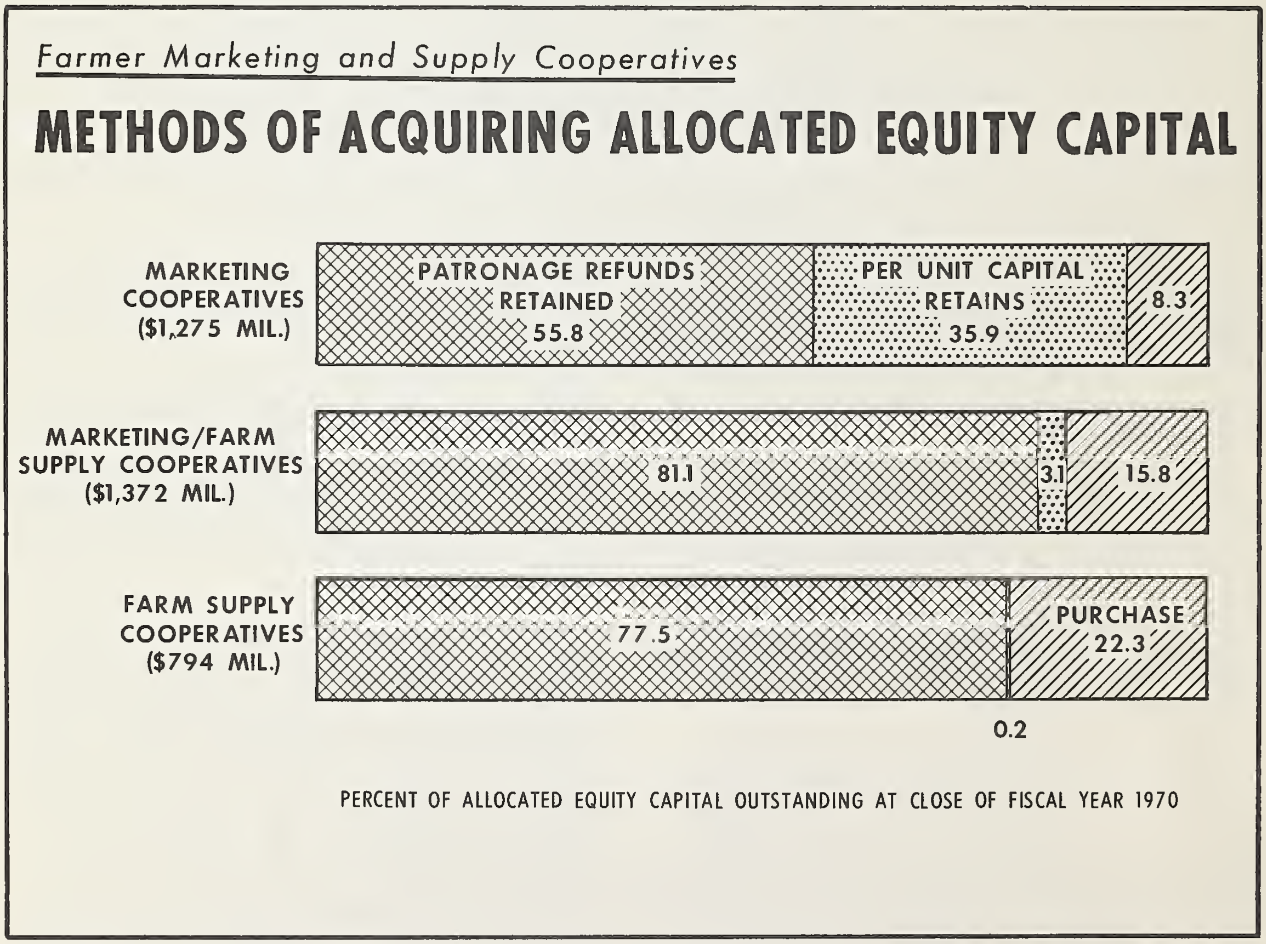

FIGURE 4

Table 14.—Methods of acquiring allocated equity capital by 7,289 farmer marketing and supply cooperatives, by major function, fiscal year 1970

Classification	Cooperatives	Total allocated equity capital	Percentage of total allocated equity capital acquired by —		
			Purchase	Patronage refunds retained	Per unit retains
	Number	*Million dollars*	*Percent*		
Farm supply	2,315	794	22.3	77.5	0.2
Marketing	2,504	1,275	8.3	55.8	35.9
Marketing/farm supply	2,470	1,372	15.8	81.1	3.1
Total	7,289	3,441	14.5	70.9	14.6

savings or margins) were subtracted from total equity capital of the 7,289 farmer cooperatives in 1970, total "allocated" equity capital of $3,441 million remained. This amount represented the total equity capital that had been purchased by or allocated to individual members and patrons. Amounts and percentages of this allocated equity capital acquired by each of the three methods mentioned above are shown by major function of the cooperatives in figure 4 and in table 14.

Almost 71 percent of the total allocated equity capital reported by the 7,289 cooperatives in 1970 was acquired by retention of patronage refunds for payment at some future date. Fifteen percent was patron contributions by per unit capital retains from sales proceeds, and the other 14 percent was purchased outright by members, patrons, and occasionally others.

The 2,315 farm supply cooperatives had allocated equity capital of $794 million in 1970. As seen in figure 4, 78 percent of this was acquired by patronage refunds retained for deferred payment and the other 22 percent was purchased outright, primarily by members and patrons. Capital retains as a method of acquiring capital was insignificant with the farm supply cooperatives.

The 2,504 marketing cooperatives had $1,275 million in allocated equity capital. Of this, 56 percent was acquired by retaining patronage refunds, 36 percent by means of per unit capital retains, and 8 percent by outright purchase.

The 2,470 multipurpose cooperatives classified as marketing/farm supply had combined allocated equity capital of $1,372 million. Of this, 81 percent was acquired by patronage refunds retained, 16 percent was purchased outright, and 3 percent was invested by the per unit capital retain route.

As shown in table 15, the principal method or methods used to acquire equity capital was not the same for all commodity groups of marketing cooperatives. For example, 2 out of every 3 dollars of equity capital of fruit and vegetable cooperatives in 1970 was acquired by per unit capital retains from patrons' sales proceeds. Grain marketing cooperatives, on the other hand, acquired only 1 percent of their equity capital by this method.

Cooperatives marketing rice or poultry products also made extensive use of the per unit capital retain method, but those marketing dairy products and cotton products acquired only 26 and 13 percent, respectively, of their equity capital this way.

Cooperatives marketing cotton products, poultry products, and dairy products acquired very little of their equity capital by selling stock and equity certificates outright. Livestock and

wool cooperatives acquired 20 percent of their equity capital by outright sale, grain cooperatives 11 percent, and fruit and vegetable cooperatives 9 percent. Outright sale of equity capital is a practice used primarily by large cooperatives, especially multipurpose and diversified organizations.

Table 15.—Methods of acquiring allocated equity capital by 4,974 farmer marketing cooperatives, by major products marketed, fiscal year 1970[1]

Classification	Cooperatives	Total allocated equity capital	Percentage of total allocated equity capital acquired by —		
			Purchase	Patronage refunds retained	Per unit retains
	Number	*Million dollars*	*Percent*	*Percent*	*Percent*
Diversified	78	424	29.6	70.3	0.1
Cotton and cotton products	526	187	2.3	84.2	13.5
Dairy products	826	521	4.8	68.9	26.3
Fruits and vegetables	475	367	9.1	24.5	66.4
Grain, soybeans and products	2,221	901	11.1	87.8	1.1
Livestock and wool	514	19	20.3	79.7	([2])
Poultry products	74	51	3.7	58.3	38.0
Rice	54	65	7.7	43.0	49.3
Other products[3]	206	112	21.1	50.0	28.9
Total	4,974	2,647	12.2	68.9	18.9

[1] Of 7,289 marketing and supply cooperatives, 2,504 were classified as marketing, 2,470 as combination marketing/farm supply, and 2,315 as farm supply. This table includes both groups engaged in marketing shown by principal products marketed.

[2] Less than 0.05 percent.

[3] Includes cooperatives handling the following products: 63 sugar (including 43 sugar beet bargaining), 28 tobacco, 17 nuts, 13 dry beans and peas, and 85 miscellaneous products.

Borrowed Capital

The changing structure of agricultural production, processing, and marketing calls for large sums of capital if cooperatives are to achieve economies of scale and the advantages of integrated operations. Adequate amounts of long-term borrowed capital will be needed to supplement member investments. Cooperatives trying to operate on a no-debt basis will find competition too great.

The 1970 balance sheets of some cooperatives showed no or very limited amounts of borrowed capital. However, there is evidence of a general trend in recent years toward the use of more borrowed funds in the capital structure of cooperatives. In total, they are relying less on internal or equity financing to meet their growing financial needs.

Farmer Marketing and Supply Cooperatives

SOURCES OF BORROWED CAPITAL

Based on $2,766 Million Outstanding at Close of Fiscal Year 1970

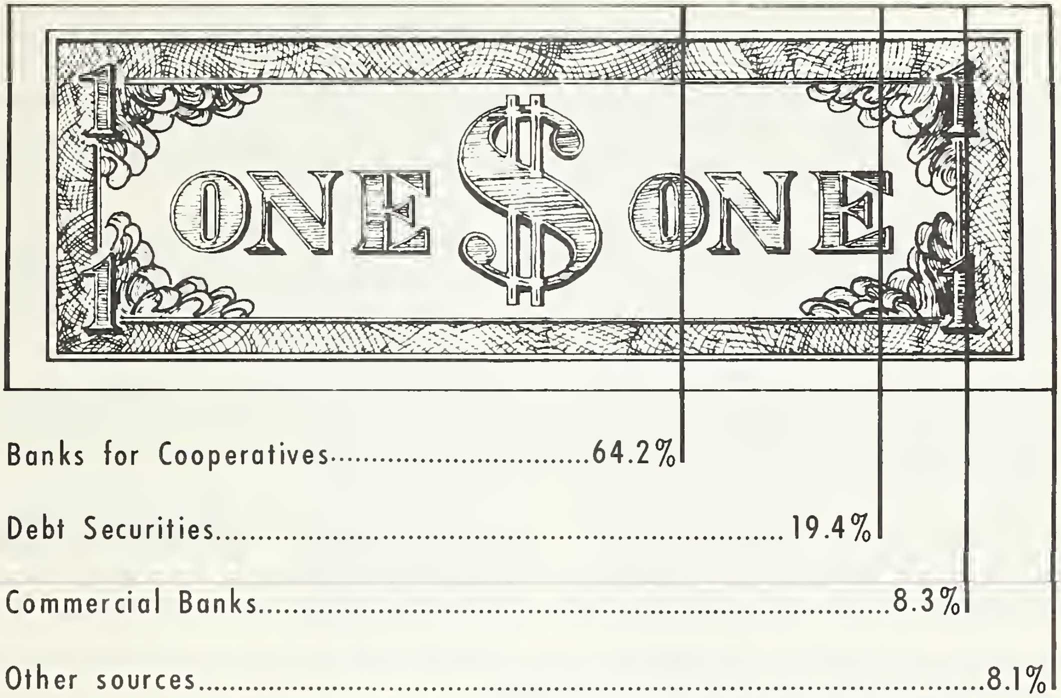

FIGURE 5

Total outstanding borrowed capital of all 7,289 farmer marketing and supply cooperatives at the close of fiscal year 1970 is estimated as $2,766 million.[3] This estimate of total borrowed capital in no way measures the annual peak borrowings of farmer cooperatives since it does not take into consideration seasonal credit demands. Farmer cooperatives used additional millions of dollars in 1970 to finance their seasonal short-term capital needs. Very few of these seasonal borrowings are reflected in this $2,766 million figure, unless they happened to be outstanding at the close of the fiscal year.

[3] Commodity Credit Corporation (CCC) loans to tobacco cooperatives are not included in this figure. Those tobacco cooperatives whose primary function was to administer the price-support program for tobacco in their area were omitted from this study. Their use of CCC funds would distort the true picture of normal credit sources of farmer cooperatives.

Amounts and sources of borrowed capital appearing on the balance sheets of the 7,289 cooperatives at the close of fiscal 1970 are shown in figure 5. Any duplication caused by intercooperative borrowing has not been eliminated from these figures. All capital borrowed by the cooperatives from other farmer cooperatives except banks for cooperatives is included in "other sources."

Banks for cooperatives are the most important source of credit. The cooperative banks accounted for almost two-thirds of borrowed capital outstanding at the close of the fiscal year. Commercial banks accounted for 8 percent.

The commercial paper market was also a major source of credit for the cooperatives in 1970. They obtained $536 million in borrowed capital from members, patrons, and others by direct loans, or through the sale or issuance of

certificates of indebtedness, debenture bonds, or other debt instruments. Debt securities of various types accounted for about a fifth of total borrowed capital outstanding at the close of fiscal year 1970.

Other sources accounted for the remaining 8 percent of total borrowed capital outstanding at the close of fiscal year 1970. The major source was other farmer cooperatives—primarily local member associations borrowing from federated cooperatives. In some cases, federated cooperatives extending credit to member associations were borrowing from other sources to provide this service. Some federated cooperatives were also borrowing from their member associations.

Other sources also included such outside sources as insurance companies, marketing and supply companies, national and State farm organizations, credit unions, and employee trust funds.

A comparison of amounts and sources of borrowed capital of farmer marketing and supply cooperatives outstanding at the close of fiscal years 1954, 1962, and 1970 are shown in figure 6. All certificates fixed as to amount and maturity date are considered debt securities.

Total borrowed capital outstanding at the close of fiscal year 1954 was estimated at $822 million. At the close of fiscal year 1962 this total was $1,191 million, an increase of 45 percent for the 8-year period or an average annual increase of 5.6 percent.

By the close of fiscal year 1970 debt capital had increased to $2,766 million, an increase for the 8-year period (1963-1970) of 132 percent, or an average annual increase of 16.5 percent.

Banks for cooperatives stand out as the major source of credit for farmer cooperatives for each of the 3 survey years, and their share of total credit continues to increase. During the last 8 years, the banks for cooperatives' share of total borrowed capital supplied has increased from about half to almost two-thirds. While total borrowed capital increased during the 8-year

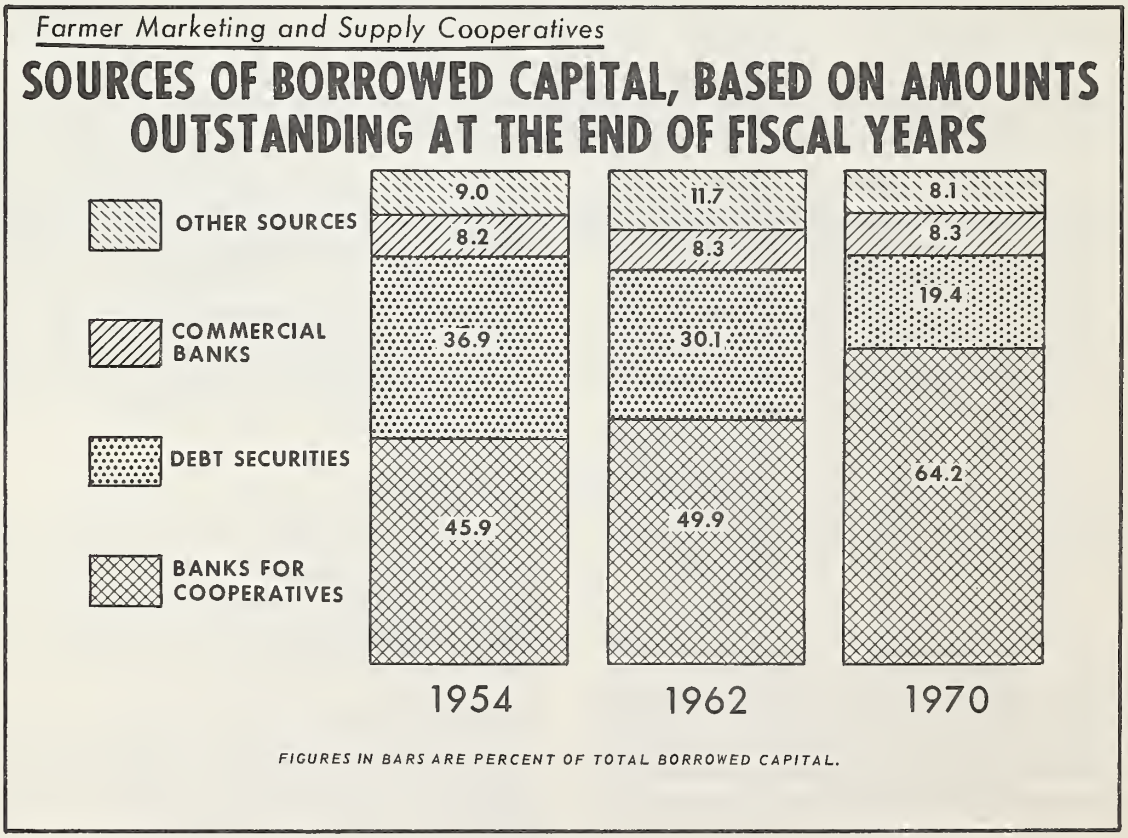

FIGURE 6

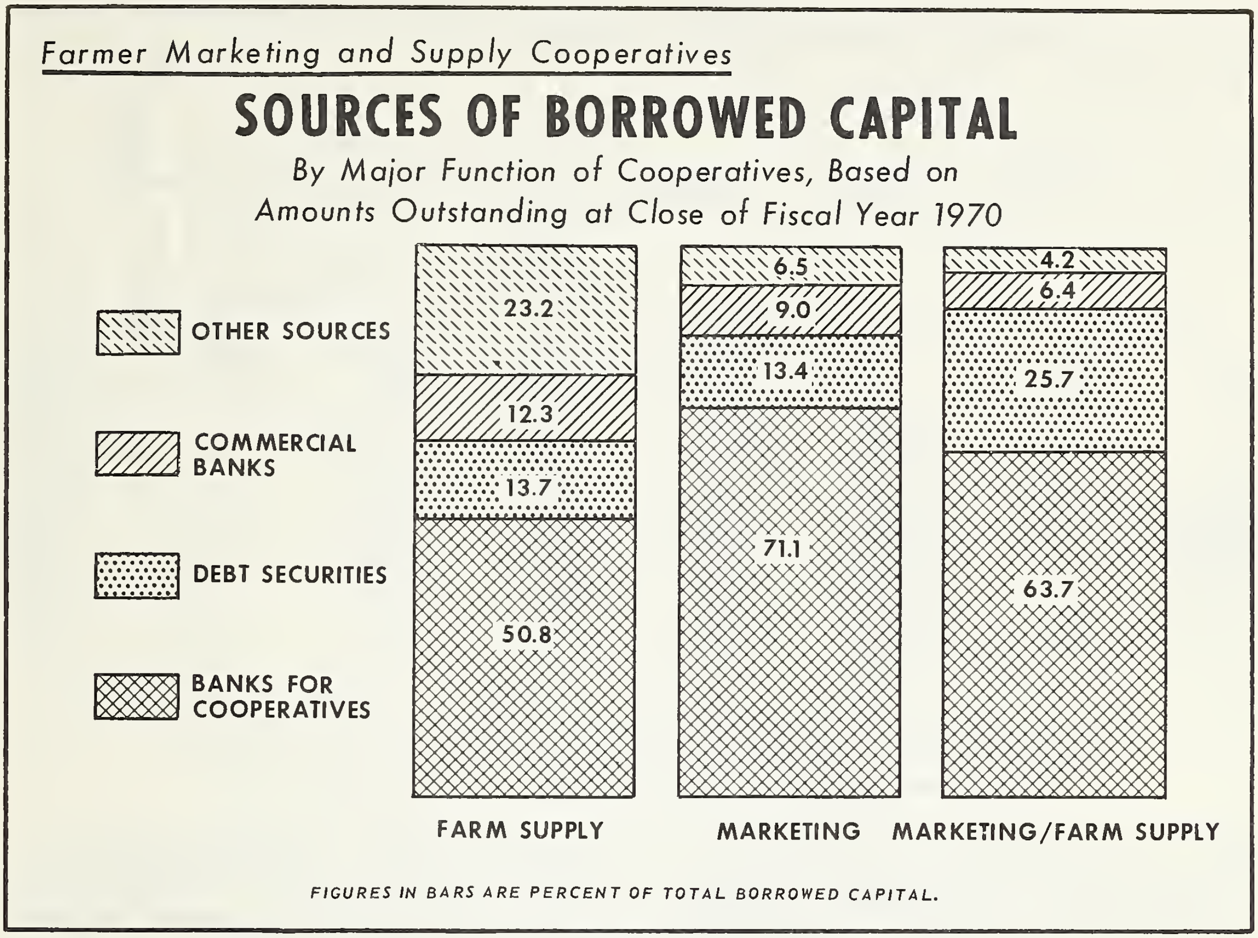

FIGURE 7

period ending in 1970 by 132 percent total borrowings from banks for cooperatives increased by 199 percent.

Commercial banks furnished approximately 8 percent of total borrowed capital outstanding at the close of the fiscal year for each of the 3 years studied—1954, 1962, and 1970.

Debt securities, including all maturity-dated certificates, accounted for less than 20 percent of total debt capital of the cooperatives at the close of fiscal 1970. Even though the total amount of securities of this type increased by 50 percent between 1962 and 1970, their share as a percentage of total debt capital was less in 1970 than it was in 1962 or 1954.

While more of the large regional cooperatives were providing their members with the opportunity to make cash investments by offering fixed-income, fixed-maturity certificates, most of the smaller cooperatives were continuing to rely on members' capital investments either in the form of retained savings or per unit capital retains. Some of the cooperatives, however, have adopted the practice of issuing maturity-dated certificates for these investments. This was also the case in 1962 and in 1954. In some cases, these maturity-dated certificates are considered equity capital by the individual cooperatives issuing them and the cooperatives reported that they are redeemed, or revolve, at or in advance of their stated maturity dates. Regardless of how classified by the cooperatives or how acquired by the holders, all certificates fixed as to amount and maturity date were classified for this study as debt or borrowed capital. To make earlier data for 1962 and 1954 comparable in this respect, $159 million for 1962 and $173 million for 1954 has been deducted from total equity capital for these years and added to borrowed capital as debt securities.

Figure 7 shows that sources of borrowed capital varied considerably by major function of the cooperatives. Amounts and sources are shown in table 16 for the three functional groups.

Table 16.—Sources of borrowed capital for 7,289 farmer marketing and supply cooperatives, by major function, based on amounts outstanding at close of fiscal year 1970

Classification	Cooperatives	Total borrowed capital	Percentage of total borrowed capital obtained from —			
			Banks for cooperatives	Commercial banks	Issuance of debt securities	Other sources
	Number	*Million dollars*	*Percent*			
Farm supply	2,315	450	50.8	12.3	13.7	23.2
Marketing	2,504	985	71.1	9.0	13.4	6.5
Marketing/farm supply	2,470	1,331	63.7	6.4	25.7	4.2
Total	7,289	2,766	64.2	8.3	19.4	8.1

Table 17.—Sources of borrowed capital for 4,974 marketing cooperatives, by principal products marketed, based on amounts outstanding at close of fiscal year 1970[1]

Classification	Cooperatives	Total borrowed capital	Percentage of total borrowed capital obtained from —			
			Banks for cooperatives	Commercial banks	Issuance of debt securities	Other sources
	Number	*Million dollars*	*Percent*			
Diversified	78	662	54.1	7.2	35.8	2.9
Cotton and cotton products	526	53	84.7	1.6	1.7	12.0
Dairy products	826	234	55.5	8.4	27.3	8.8
Fruits and vegetables	475	504	73.6	12.5	8.7	5.2
Grain, soybeans and products	2,221	709	73.9	4.0	17.1	5.0
Livestock and wool	514	20	46.8	4.2	12.6	36.4
Poultry products	74	25	66.9	31.7	([2])	1.4
Rice	54	29	88.3	8.3	([2])	3.4
Other products[3]	206	80	84.7	4.9	4.9	5.5
Total	4,974	2,316	66.8	7.5	20.5	5.2

[1] Of 7,289 marketing and supply cooperatives, 2,504 were classified as marketing, 2,470 as combination marketing/farm supply, and 2,315 as farm supply. This table includes both groups engaged in marketing shown by principal products marketed.

[2] Less than 0.05 percent.

[3] Includes cooperatives handling the following products: 63 sugar (including 43 sugar beet bargaining), 28 tobacco, 17 nuts, 13 dry beans and peas, and 85 miscellaneous products.

Table 18.—Sources of borrowed capital for 7,289 farmer marketing and supply cooperatives, by farm credit districts, based on amounts outstanding at close of fiscal year 1970

Farm credit districts	Cooperatives	Total borrowed capital	Percentage of total borrowed capital obtained from —			
			Banks for cooperatives	Commercial banks	Issuance of debt securities	Other sources
	Number	*Million dollars*	*Percent*			
Springfield	388	284	39.8	9.0	45.3	5.9
Baltimore	343	100	69.3	3.7	16.8	10.2
Columbia	209	173	81.2	4.5	7.9	6.4
Louisville	532	241	63.5	7.5	21.8	7.2
New Orleans	269	129	76.5	1.0	13.2	9.3
St. Louis	593	431	54.0	11.7	28.3	6.0
St. Paul	1,998	367	62.0	4.9	19.5	13.6
Omaha	1,094	207	68.8	4.2	15.9	11.1
Wichita	552	176	76.8	2.3	12.7	8.2
Houston	479	128	79.4	2.4	8.0	10.2
Berkeley	368	337	71.2	20.8	1.7	6.3
Spokane	464	193	63.7	9.7	20.1	6.5
Total	7,289	2,766	64.2	8.3	19.4	8.1

Marketing cooperatives used the banks for cooperatives for a larger percentage of their borrowed capital in 1970 than farm supply cooperatives did. The farm supply cooperatives, on the other hand, obtained a much larger percentage of their total borrowed capital from "other" sources—primarily other farmer cooperatives. A large percentage of the local member cooperatives of several farm supply regionals reported borrowed funds furnished by the regionals.

The marketing/farm supply cooperatives had a relatively high percentage of their 1970 borrowed capital, one fourth, in the form of debt securities. This compared with approximately 13 percent for the other functional groups.

The 1970 credit picture for the 4,974 cooperatives engaged in marketing is shown in table 17 by principal products marketed. The data suggest some basic differences in financing patterns. However, heavy borrowing by a few large cooperatives contributed very significantly in some cases to the borrowing patterns.

Two-thirds of the debt capital of the 4,974 cooperatives engaged in marketing was furnished by the banks for cooperatives. Cooperatives marketing cotton, fruits and vegetables, grain and rice, and poultry obtained more than two-thirds of their debt capital from the cooperative banks.

Sources and amounts of borrowed capital of the 7,289 farmer cooperatives were also tabulated by farm credit districts. The data, shown in table 18, are based on the percentage of total borrowed capital ($2,766 million) of the cooperatives outstanding at the close of fiscal year 1970 obtained from each source.

Credit provided by the 13 banks for cooperatives ranged from a low of 40 percent of total borrowed capital in the Springfield district to a high of 81 percent in the Columbia district. Other districts where the cooperative banks were furnishing cooperatives significantly more than the national average of 64 percent were Houston, Wichita, New Orleans, and Berkeley.

Commercial banks furnished cooperatives with headquarters located in the Berkeley

district with almost 21 percent of their total borrowed capital outstanding at the close of fiscal year 1970. This compares with other relative highs of 12 percent in the St. Louis district and 10 percent in the Spokane district. These percentages are substantially above those for the New Orleans, Wichita, Houston, and Baltimore districts.

Debt securities accounted for over 45 percent of total debt capital of the cooperatives with headquarters located in the Springfield district, and for over 28 percent for those in the St. Louis district. These highs compare with lows of less than 2 percent in the Berkeley district and approximately 8 percent in the Columbia and Houston districts.

Net Savings and Losses

At the close of fiscal 1970, combined net savings and losses of the 7,289 farmer marketing and supply cooperatives amounted to $478 million. This is a gross figure—duplications arising from intercooperative business have not been eliminated. When intercooperative distributions of patronage refunds by these cooperatives, estimated at about 10 percent, were deducted, net savings of approximately $430 million were left. If $78 million in qualified per unit capital retains allocated to patrons (fixed without reference to net savings) are added to this net savings figure, the cooperatives had approximately $508 million for distribution to members and patrons based on the fiscal year's business.

Table 19 shows how the 7,289 major functional groups of cooperatives distributed the $478 million net savings and losses. Table 20 shows comparable data for the marketing cooperatives, when further classified by major products marketed. Negative figures in the unallocated reserve column of these tables resulted

Table 19.—Distribution of net savings and losses of 7,289 farmer marketing and supply cooperatives, by major function, fiscal year 1970[1]

Classification	Cooperatives	Total net savings and losses	Percentage of total net savings and losses distributed as —					
			Patronage refunds on current year's business		Unallocated reserves	Dividends and interest on equity capital	Income taxes	
			Paid in cash	Allocated			Federal	State
	Number	*Million dollars*	*Percent*					
Farm supply	2,315	148	41.6	38.7	5.8	6.5	7.1	0.3
Marketing	2,504	157	62.2	32.2	(-2.9)	6.9	1.5	0.1
Marketing/farm supply	2,470	173	29.2	54.2	0.5	9.4	5.9	0.8
Total	7,289	478	43.9	42.2	1.0	7.7	4.8	0.4

[1] Per unit capital retains, fixed without reference to net savings, are not included. Intercooperative distributions have not been eliminated.

Table 20.—Distribution of net savings and losses of 4,974 farmer marketing cooperatives, by principal products marketed, fiscal year 1970[1]

Classification	Cooperatives	Total net savings and losses	Percentage of total net savings and losses distributed as —					
			Patronage refunds on current year's business		Unallocated reserves	Dividends and interest on equity capital	Income taxes	
			Paid in cash	Allocated			Federal	State
	Number	*Million dollars*	*Percent*					
Diversified	78	64	29.4	51.0	(-6.0)	14.2	10.2	1.2
Cotton and cotton products	526	37	56.8	41.6	(-1.4)	2.9	0.1	([2])
Dairy products	826	44	36.2	54.0	1.4	7.0	1.3	0.1
Fruits and vegetables	475	49	79.1	25.9	(-14.3)	7.4	1.9	([2])
Grain, soybeans and products	2,221	90	26.6	54.9	7.5	6.7	3.6	0.7
Livestock and wool	514	2	16.7	39.9	25.4	8.6	8.5	0.9
Poultry products	74	4	31.1	71.9	(-5.5)	2.1	0.4	([2])
Rice	54	24	74.8	16.8	([2])	6.4	2.0	([2])
Other products[3]	206	16	63.2	17.2	0.8	15.5	3.2	0.1
Total	4,974	330	44.9	43.7	(-1.1)	8.3	3.8	0.4

[1] Of 7,289 marketing and supply cooperatives, 2,504 were classified as marketing, 2,470 as combination marketing/farm supply, and 2,315 as farm supply. This table includes both groups engaged in marketing shown by principal products marketed. Per unit capital retains fixed without reference to net savings are not included. Intercooperative distributions have not been eliminated.

[2] Less than 0.05 percent.

[3] Includes cooperatives handling the following products: 63 sugar (including 43 sugar beet bargaining), 28 tobacco, 17 nuts, 13 dry beans and peas, and 85 miscellaneous products.

primarily from charging losses to this reserve account.

Eight of the top 100 cooperatives and 110 of the 667 sample group reported net losses on their operating statements for fiscal year 1970. Net losses of these cooperatives were tabulated along with net savings of the other associations in arriving at the estimate for nonreporting cooperatives, in order to arrive at aggregate operating results for all the cooperatives. Thus, the $478 million net savings estimate reflects operating losses incurred as well as savings realized.

None of the net savings figures included in this report reflect all the actual savings and value of services provided members and patrons by the farmer cooperatives. Most cooperatives provide services as close to actual cost as possible during the year so that when their books are closed at the end of their operating year, amounts remaining (overpayments or underpayments) are relatively small. For example, most farmer marketing cooperatives that operate on a "pool" basis have no margins or practically none for distribution at the end of the fiscal year. A separate evaluation of "real" savings to farmers provided by these cooperatives would require a separate study and evaluation, since savings are for the most part inextricably combined with sales returns.

Table 21 shows how cooperatives *with* net savings for fiscal year 1970 distributed the savings. All cooperatives with losses for the year were excluded in tabulating these figures. Combined net savings or proceeds for all the cooperatives amounted to $506 million. Of this amount, $24 million, or about 5 percent, was used to pay income taxes. Another 7 percent was distributed as dividends and interest on capital stock and equity certificates. Over 81 percent was distributed as patronage refunds on the current year's business—41 percent in cash and 40 percent as allocated capital credits. The remaining 7 percent was retained by the cooperatives as unallocated reserves.

Table 21.—Distribution of net savings of 7,289 farmer marketing and supply cooperatives, by major function, fiscal year 1970[1]

Classification	Cooperatives	Total net savings	Percentage of total net savings distributed as —					
			Patronage refunds on current year's business		Unallocated reserves	Dividends and interest on equity capital	Income taxes	
			Paid in cash	Allocated			Federal	State
	Number	*Million dollars*	*Percent*					
Farm supply	2,315	150	40.2	37.2	9.5	6.0	6.8	0.3
Marketing	2,504	174	58.5	30.3	4.2	5.9	1.0	0.1
Marketing/farm supply	2,470	182	26.1	50.8	8.1	8.7	5.6	0.7
Total	7,289	506	41.4	39.7	7.1	7.0	4.4	0.4

[1] Only those cooperatives with net savings for the year are included in this table. Per unit capital retains fixed without reference to net savings are not included. Intercooperative distributions have not been eliminated.

These figures showing distribution of net savings by cooperatives for fiscal 1970 are presented with comparable data for fiscal years 1954 and 1962 in figure 8. Total net savings for 1962 were estimated at $525 million, and for 1954 at $332 million. Savings of $506 million in 1970 were $19 million less than in 1962—8 years earlier.

As shown in figure 8, cooperatives as a total group distributed a larger portion of their savings as cash patronage refunds in 1970 than in earlier years. They also retained a little more as unallocated reserves in 1970. Percentages of total net savings paid as dividends and interest on equity capital and as Federal and State income taxes did not change significantly over the last two decades.

Distribution of net savings by farmer marketing and supply cooperatives for fiscal year 1970 is shown on the basis of major function of the

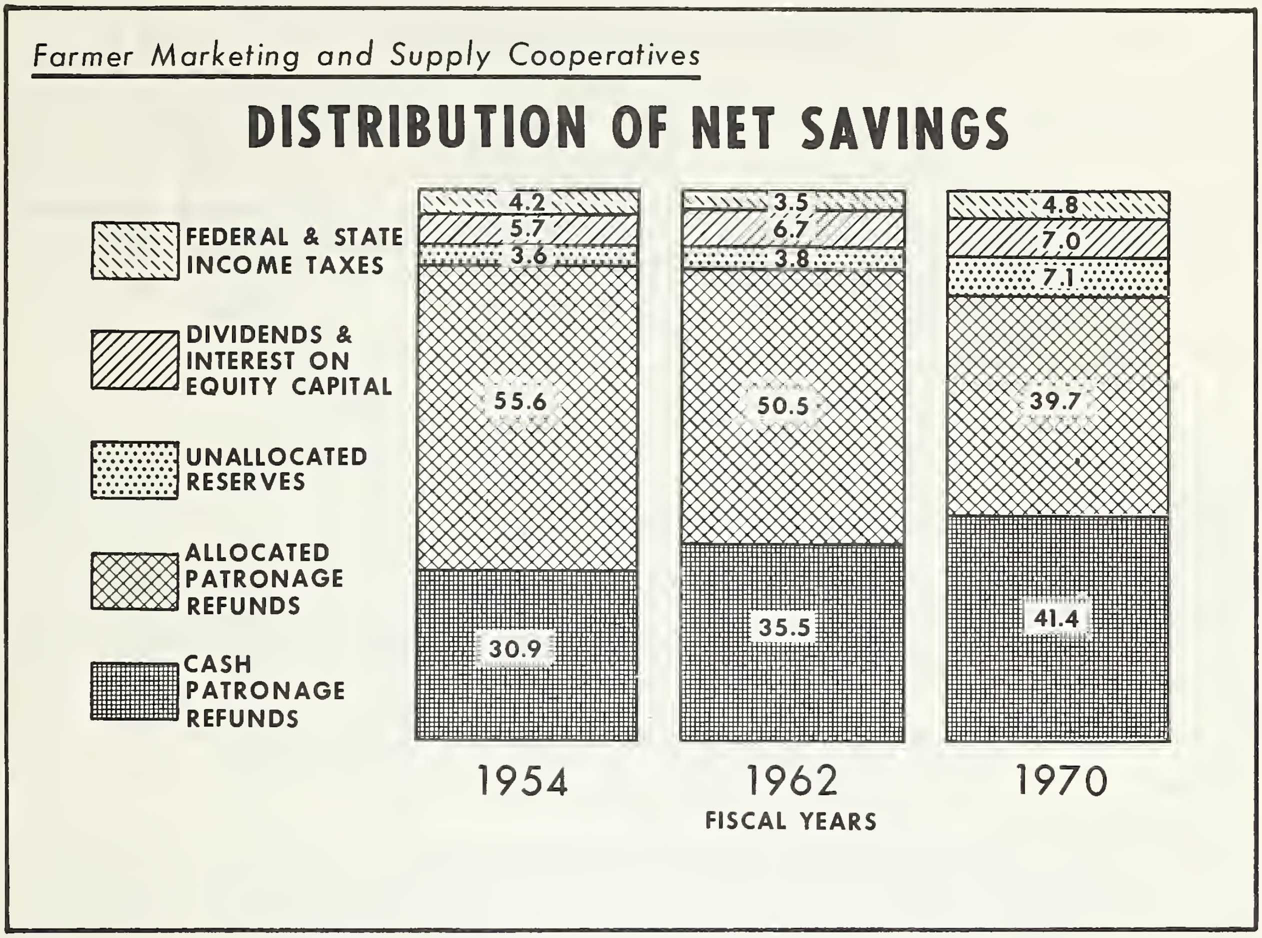

FIGURE 8

cooperatives in table 21, and by major products marketed in table 22.

Since they have more nonmember business, cooperatives handling farm supplies paid more income taxes than those engaged exclusively in marketing farm products. They also retained a larger percentage of their net savings as unallocated reserves.

Marketing cooperatives, on the other hand, distributed a larger percentage of their patronage refunds in cash. As indicated earlier, patrons of many types of marketing associations contribute a substantial portion of their member capital through the per unit capital retain route, and such retains are fixed without reference to net savings.

Tables 23 and 24 show distribution of 1970 after-tax net savings of the 7,289 cooperatives *plus* allocated per unit capital retains fixed without reference to net savings. The total figure of $551 million shown in table 23 represents total distribution to members and patrons based on the current fiscal year's business.

Except for 6.6 percent which was retained as tax-paid unallocated reserves and 6.4 percent which was distributed to holders of equity capital as dividends and interest, the $551 million was distributed to patrons based on their current year's business with the cooperatives. This remaining balance of $480 million was distributed as follows: 44 percent as cash patronage refunds, 42 percent as allocated

Table 22.—Distribution of net savings of 4,974 farmer marketing cooperatives, by principal products marketed, fiscal year 1970[1]

Classification	Cooperatives	Total net savings	Percentage of total net savings distributed as — Patronage refunds on current year's business: Paid in cash	Allocated	Unallocated reserves	Dividends and interest on equity capital	Income taxes: Federal	State
	Number	*Million dollars*	*Percent*					
Diversified	78	73	23.1	45.2	9.0	12.5	9.1	1.1
Cotton and cotton products	526	37	54.0	43.0	0.2	2.7	0.1	(2)
Dairy products	826	46	33.8	50.3	8.2	6.4	1.2	0.1
Fruits and vegetables	475	63	71.0	20.5	1.9	5.7	0.9	(2)
Grain, soybeans and products	2,221	91	25.5	54.1	10.1	6.2	3.5	0.6
Livestock and wool	514	2	15.3	35.5	31.6	9.1	7.6	0.9
Poultry products	74	4	29.2	66.5	1.9	1.9	0.5	(2)
Rice	54	24	74.9	16.7	(2)	6.5	1.9	(2)
Other products[3]	206	16	59.1	22.8	2.7	13.0	2.3	0.1
Total	4,974	356	41.9	40.8	6.2	7.4	3.3	0.4

[1] Of the 7,289 marketing and supply cooperatives, 2,504 were classified as marketing, 2,470 as combination marketing/farm supply, and 2,315 as farm supply. This table includes both groups engaged in marketing shown by principal products marketed. Only those cooperatives with net savings for the year are included. Per unit capital retains, fixed without reference to net savings, are not included. Intercooperative distributions have not been eliminated.

[2] Less than 0.05 percent.

[3] Includes cooperatives handling the following products: 63 sugar (including 43 sugar beet bargaining), 28 tobacco, 17 nuts, 13 dry beans and peas, and 85 miscellaneous products.

patronage refunds, and 14 percent as allocated per unit capital retains.

Less than 1 percent of the allocated patronage refunds and per unit capital retains based on the current year's business were issued as "nonqualified" notifications for Federal income tax purposes. A few cooperatives deliberately issue nonqualified patronage refunds or per unit capital retains. However, most of the cooperatives had only small amounts in nonqualified allocations. These resulted primarily from failure on the part of a few patrons to endorse and cash their patronage refund checks in the 90-day period allowed by cooperatives using this method of patron consent.[4]

[4] An explanation of how to "qualify" patronage refunds and capital retains appears in another report. Neely, D. Morrison. Legal Phases of Farmer Cooperatives, Part II, Federal Income Taxes. Farmer Cooperative Service, U.S. Dept. Agr., Information 69, November 1970.

Table 23.—Distribution of after-tax net savings *plus* per unit capital retains of 7,289 farmer marketing and supply cooperatives, by major function, fiscal year 1970[1]

Classification	Cooperatives	Total net savings and per unit retains	Percentage of total net savings and retains distributed as —				
			Dividends and interest on equity capital	Patronage refunds and per unit retains on current year's business			Unallocated reserves
				Cash patronage refunds	Allocated patronage refunds	Allocated per unit retains[2]	
	Number	*Million dollars*	*Percent*				
Farm supply	2,315	140	6.5	43.2	39.8	0.4	10.1
Marketing	2,504	235	4.4	43.2	22.3	27.0	3.1
Marketing/farm supply	2,470	176	9.0	27.1	52.8	2.7	8.4
Total	7,289	551	6.4	38.0	36.5	12.5	6.6

[1] Only those cooperatives with net savings for the year are included in this table.
[2] Per unit capital retains were fixed without reference to net savings of the cooperatives.

Table 24.—Distribution of after-tax net savings *plus* per unit capital retains of 4,974 farmer marketing cooperatives, by principal products marketed, fiscal year 1970[1]

Classification	Cooperatives	Total net savings and per unit retains	Percentage of total net savings and retains distributed as —				
			Dividends and interest on equity capital	Patronage refunds and per unit retains on current year's business			Unallocated reserves
				Cash patronage refunds	Allocated patronage refunds	Allocated per unit retains[2]	
	Number	*Million dollars*	*Percent*				
Diversified	78	65	13.9	25.7	50.3	0.1	10.0
Cotton and cotton products	526	41	2.4	48.3	38.5	10.6	0.2
Dairy products	826	66	4.5	23.9	35.6	30.2	5.8
Fruits and vegetables	475	92	4.0	48.9	14.1	31.7	1.3
Grain, soybeans and products	2,221	90	6.3	25.9	54.9	2.6	10.3
Livestock and wool	514	2	9.9	16.8	38.8	([3])	34.5
Poultry products	74	5	1.6	24.8	56.4	15.5	1.7
Rice	54	28	5.6	64.9	14.5	15.0	([3])
Other products[4]	206	23	8.9	40.3	15.6	33.3	1.9
Total	4,974	412	6.4	36.3	35.3	16.6	5.4

[1] Of 7,289 marketing and supply cooperatives, 2,504 were classified as marketing, 2,470 as combination marketing/farm supply, and 2,315 as farm supply. This table includes both groups engaged in marketing shown by principal products marketed. Only those cooperations with net savings for the year are included in this table.
[2] Per unit capital retains were fixed without reference to net savings of the cooperatives.
[3] Less than 0.05 percent.
[4] Includes cooperatives handling the following products: 63 sugar (including 43 sugar beet bargaining), 28 tobacco, 17 nuts, 13 dry beans and peas, and 85 miscellaneous products.

DISTRIBUTION OF NET LOSSES

An estimate of total net losses for all 7,289 farmer marketing and supply cooperatives for their fiscal years ending in 1970 was not made because of insufficient data. Of the two groups of cooperatives used in the study, 8 of the 100 largest cooperatives and 110 of the 667 sample group had net losses for the year.

After payments of dividends and interest on equity capital amounting to $230,000 and income taxes amounting to $130,000, these 118 cooperatives had net losses of about $24 million.

These losses were handled by the cooperatives as follows: Unallocated reserves were decreased to cover 87 percent of the losses, and the other 13 percent was distributed to patrons on the basis of their patronage for the year, just as net savings would have been distributed. In most instances, this was handled by reducing individual allocated equity accounts, but in some instances the losses were charged to patrons by debiting their individual accounts receivable or the overpayments were deducted from final payments due patrons for products.

Table 25 shows how net losses were distributed separately for the 100 largest and the sample cooperatives, by major function.

Table 25.—Distribution of net losses by 118 farmer marketing and supply cooperatives, by major function, fiscal year 1970

Classification	Number of cooperatives with net losses	Total net losses	Percentage of total net losses distributed —	
			To patrons based on current year's business	As unallocated reserves
		1,000 dollars	*Percent*	
Farm supply—total	17	1,865	(-0.2)	100.2
Largest 100	1	1,575	--	100.0
Sample	16	290	(-1.5)	101.5
Marketing—total	79	13,022	40.4	59.6
Largest 100	5	10,654	40.7	59.3
Sample	74	2,368	38.6	61.4
Marketing/farm supply—total	22	8,976	(-23.1)	123.1
Largest 100	2	8,243	(-26.6)	126.6
Sample	20	733	16.0	84.0
Total	118	23,863	13.3	86.7
Largest 100	8	20,472	10.5	89.5
Sample	110	3,391	30.3	69.7

SECTION II. THE ONE HUNDRED LARGEST COOPERATIVES

The 100 largest cooperatives are considered separately in this report because of their tremendous significance to the total financial picture of farmer cooperatives. Although they represented only 1.4 percent of the total number of marketing and supply cooperatives operating in 1970, they accounted for 47 percent of the total business transacted, 51 percent of total assets, 43 percent of equity capital, 61 percent of borrowed capital, and 54 percent of net savings and losses.

Of the 100 largest cooperatives, 62 were engaged primarily in marketing farm products, 16 in providing producers with farm supplies, and 22 were performing both these functions. Table 26 shows basic financial information for the 100 largest cooperatives, compared with that for all farmer marketing and supply cooperatives in 1970 by major function of the cooperatives.

Table 27 shows comparable data for the cooperatives engaged in marketing by major products marketed. All data shown on the basis of farm products marketed include cooperatives engaged strictly in marketing *and* those engaged in both marketing and supply activities.

The 14 diversified cooperatives listed in table 27 were too highly diversified to be classified by products marketed. These 14 cooperatives accounted for approximately 98 percent of the total capital used by all 78 cooperatives in this group. The 14 grain marketing cooperatives in the 100 largest group, on the other hand, accounted for less than 1 percent of the 2,221 cooperatives marketing grain in 1970 and for about a fourth of their total capital requirements.

Table 26.—Financial significance of the 100 largest farmer marketing and supply cooperatives to all such cooperatives, classified by major function, based on basic financial characteristics at the close of fiscal year 1970

Classification	Cooperatives		Assets		Equity capital		Borrowed capital		Net savings and losses plus per unit retains		Volume of business	
	Top 100	Total	Top 100	Total	Top 100	Total	Top 100	Total	Top 100	Total	Top 100	Total
	Number		*Million dollars*									
Farm supply	16	2,315	781	1,668	378	941	246	450	76	149	1,155	2,588
Marketing	62	2,504	1,835	3,138	653	1,350	678	985	139	229	6,035	12,673
Marketing/farm supply	22	2,470	1,710	3,671	661	1,659	759	1,331	83	178	3,991	8,344
Total	100	7,289	4,326	8,477	1,692	3,950	1,683	2,766	298	556	11,181	23,605

Table 27.—Financial significance of the 84 largest farmer marketing cooperatives to all marketing cooperatives, classified by major products marketed, based on basic financial characteristics at the close of fiscal year 1970

Classification	Cooperatives		Assets		Equity capital		Borrowed capital		Net savings and losses plus per unit retains		Volume of business	
	Top 100	Total	Top 100	Total	Top 100	Total	Top 100	Total	Top 100	Total	Top 100	Total
	Number		*Million dollars*									
Diversified	14[1]	78	1,412	1,440	525	542	655	662	62	65	3,056	3,159
Cotton and cotton products	6	526	106	305	44	191	24	53	17	41	357	714
Dairy products	19[2]	826	607	1,138	213	535	162	234	32	66	2,475	5,091
Fruits and vegetables	18[2]	475	593	1,129	165	371	319	504	38	85	1,108	2,240
Grain, soybeans and products	14[3]	2,221	548	2,217	231	1,087	218	709	29	92	1,856	5,638
Poultry products	3[2]	74	33	95	11	50	16	25	2	5	153	460
Rice	4	54	77	135	32	66	23	29	23	28	228	443
Other products	6[4]	720	169	350	93	167	20	100	19	25	793	3,272
Total marketing	84	4,974	3,545	6,809	1,314	3,009	1,437	2,316	222	407	10,026	21,017

[1] These 14 cooperatives were marketing several farm products and also handling farm supplies.
[2] Includes one marketing cooperative that was also handling farm supplies.
[3] Includes 5 marketing cooperatives that were also handling farm supplies.
[4] Includes 2 livestock sales agencies, 2 nut marketing cooperatives, and 2 cooperatives marketing sugar products.

Table 28.—Financial significance of the 100 largest farmer marketing and supply cooperatives to all marketing and supply cooperatives, classified by farm credit districts, based on basic financial characteristics at the close of fiscal year 1970

Classification	Cooperatives		Assets		Equity capital		Borrowed capital		Net savings and losses plus per unit retains		Volume of business	
	Top 100	Total	Top 100	Total	Top 100	Total	Top 100	Total	Top 100	Total	Top 100	Total
	Number		*Million dollars*									
Springfield	8	388	476	650	123	221	243	284	22	35	1,195	1,990
Baltimore	7	343	189	315	86	157	69	100	13	22	404	686
Columbia	10	209	329	494	144	221	126	173	27	39	723	1,520
Louisville	9	532	336	660	120	291	146	241	13	30	1,064	2,397
New Orleans	4	269	178	340	74	159	78	129	11	21	297	676
St. Louis	11	593	841	1,186	317	508	342	431	65	85	1,964	3,284
St. Paul	12	1,998	602	1,588	319	882	144	367	47	104	1,794	4,387
Omaha and Wichita	5	1,646	255	1,320	119	694	88	383	17	71	678	3,108
Houston	6	479	226	460	77	228	79	128	11	34	796	1,287
Berkeley	22	368	704	990	271	408	262	337	76	102	1,845	2,985
Spokane	6	464	190	474	42	181	106	193	(-4)	13	421	1,285
Total	100	7,289	4,326	8,477	1,692	3,950	1,683	2,766	298	556	11,181	23,605

Table 28 provides basic 1970 financial data for the 100 largest cooperatives compared with that for all cooperatives, based on geographic location of the cooperatives' headquarters. These figures show that cooperatives in the largest 100 group accounted for a low of less than 20 percent of total capital of all the cooperatives in the Omaha-Wichita farm credit districts to a high of over 70 percent for those in the Springfield, St. Louis, and Berkeley districts.

All except three of the largest 100 cooperatives were included in a Farmer Cooperative Service financial study for fiscal year 1962. Comparable 1962 data are presented in this report along with the 1970 data, for the 97 cooperatives operating both years. Adjustments have been made in the original 1962 data where necessary because of mergers, consolidations, etc. to make the information conform with the 1970 status of the cooperatives.

Volume of Business

The 100 largest farmer marketing and supply cooperatives reported a combined business volume of $11 billion for their 1970 fiscal years. Their average 1970 volume of business was $112 million, while in 1962 it was $74 million. This represents an increase in business volume of 51 percent for the 8-year period, or an average annual increase of 6.4 percent. If the 1970 volume figure is adjusted to eliminate inflation, the increase for the 8-year period was 18 percent, or an average annual increase of 2¼ percent. These percentages are based on averages for the 100 cooperatives in 1970 and for 97 cooperatives in 1962.

A comparison of dollar volume of business reported by the cooperatives in 1970, compared with 1962, is shown in table 29 with the cooperatives classified by major function. The average size of business for the farm supply cooperatives in 1970 was $72 million, compared with $42 million in 1962. The strictly marketing cooperatives had an average volume of $66 million in 1962, compared with $97 million in 1970. And, the marketing/farm supply cooperatives increased their average volume from $120 million in 1962 to $181 million in 1970.

The 1970 volume of business figures for the

Table 29.—Volume of business of the 100 largest farmer marketing and supply cooperatives, by major function, fiscal years 1962 and 1970[1]

Classification	1970		1962	
	Cooperatives	Volume of business	Cooperatives	Volume of business
	Number	*Million dollars*	*Number*	*Million dollars*
Farm supply	16	1,155	15	625
Marketing	62	6,035	61	4,055
Marketing/farm supply	22	3,991	21	2,516
Total	100	11,181	97	7,196

[1] Three of the largest 100 cooperatives in 1970 were not operating in 1962. Their combined 1970 volume totaled $161 million.

Table 30.—Volume of business of the 84 largest farmer marketing cooperatives, by major products marketed, fiscal years 1962 and 1970[1]

Classification	1970		1962	
	Cooperatives	Volume of business	Cooperatives	Volume of business
	Number	*Million dollars*	*Number*	*Million dollars*
Diversified	14	3,056	14	1,907
Cotton and cotton products	6	357	6	388
Dairy products	19	2,475	19	1,625
Fruits and vegetables	18	1,108	16	577
Grain, soybeans and products	14	1,856	14	1,221
Poultry products	3	153	3	123
Rice	4	228	4	124
Other products[2]	6	793	6	606
Total	84	10,026	82	6,571

[1] Of the 100 largest cooperatives in 1970, 62 were classified as primarily marketing, 22 as combination marketing/farm supply, and 16 as farm supply. This table includes both groups engaged in marketing shown by principal products marketed. Two of the 84 largest marketing cooperatives in 1970 were not operating in 1962. Their combined 1970 volume totaled $125 million.

[2] Includes 2 cooperatives handling livestock, 2 handling nuts, and 2 handling sugar products.

84 largest farmer marketing cooperatives are compared with the 1962 figures in table 30 by major products marketed. Average volume size for the 84 cooperatives in 1970 was $119 million, compared with $80 million in 1962.

The 14 diversified marketing/farm supply cooperatives had an average 1962 volume of $136 million, compared with $218 million in 1970. This represents an increase of 60 percent for the 8-year period, or an average annual increase of 7.5 percent.

The average annual increases in volume of business between 1962 and 1970 for cooperatives marketing three of the major farm product groups were:

Classification	Percent
Dairy products	6.5
Fruits and vegetables	8.9
Grain, soybeans and products	6.5

Table 31 shows 1970 and 1962 volume of business figures for the 100 largest cooperatives based on location of headquarters in farm credit districts. The average annual increase in volume for the 8-year period ranged from a low of 1.9 percent for the cooperatives located in the Springfield district to a high of 10 percent for those located in the Columbia district. The average annual percentage increase by each district was:

District	Percent
Springfield	1.9
Omaha-Wichita	4.1
Baltimore	5.3
Berkeley	5.3
Houston	5.6
St. Paul	7.5
New Orleans	7.8
Spokane	8.0
Louisville	8.5
St. Louis	9.0
Columbia	10.0

Table 31.—Volume of business of 100 largest farmer marketing and supply cooperatives, by farm credit districts, fiscal years 1962 and 1970[1]

Classification	1970		1962	
	Cooperatives	Volume of business	Cooperatives	Volume of business
	Number	*Million dollars*	*Number*	*Million dollars*
Springfield	8	1,195	7	912
Baltimore	7	404	7	285
Columbia	10	723	9	361
Louisville	9	1,064	9	633
New Orleans	4	297	4	183
St. Louis	11	1,964	11	1,145
St. Paul	12	1,794	12	1,120
Omaha and Wichita	5	678	5	509
Houston	6	796	6	549
Berkeley	22	1,845	21	1,243
Spokane	6	421	6	256
Total	100	11,181	97	7,196

[1] Three of the 100 largest cooperatives in 1970 were not operating in 1962. Their combined 1970 volume totaled $161 million.

Financial Structure

The financial structure of the 100 largest farmer marketing and supply cooperatives changed significantly between 1962 and 1970. Reliance on member capital diminished as the cooperatives shifted to a heavier debt position.

Between 1962 and 1970, combined assets of the cooperatives increased by 77 percent. The deflated rate of increase for the 8-year period was 38 percent.

During this period borrowed capital showed an increase of 141 percent, while equity capital increased by only 32 percent. These percentages are based on averages for the 100 cooperatives in 1970 and for 97 of them in 1962. Average annual increases for the 8-year period were:

Item	Percent
Assets	10
Equity capital	4
Borrowed capital	18

A graphic comparison of the financial structure of the 100 largest cooperatives for 1962 and 1970 is shown in figure 9. At the close of fiscal year 1962, the 97 cooperatives had average assets of $24 million. Of this, equity capital accounted for over 52 percent and borrowed capital for less than 29 percent. By the close of fiscal year 1970, the 100 cooperatives had average assets of $43 million. Of this $43 million average figure, the same percentage was furnished by creditors as by members—39 percent.

A comparison of balance sheet data for the 100 largest cooperatives at the close of fiscal years 1962 and 1970 is shown with the cooperatives classified by major function in table 32. Comparable data is shown in table 33 for only those cooperatives engaged in marketing, by major products marketed. Table 34 provides the same balance sheet information with the cooperatives classified by location of headquarters in the 12 farm credit districts.

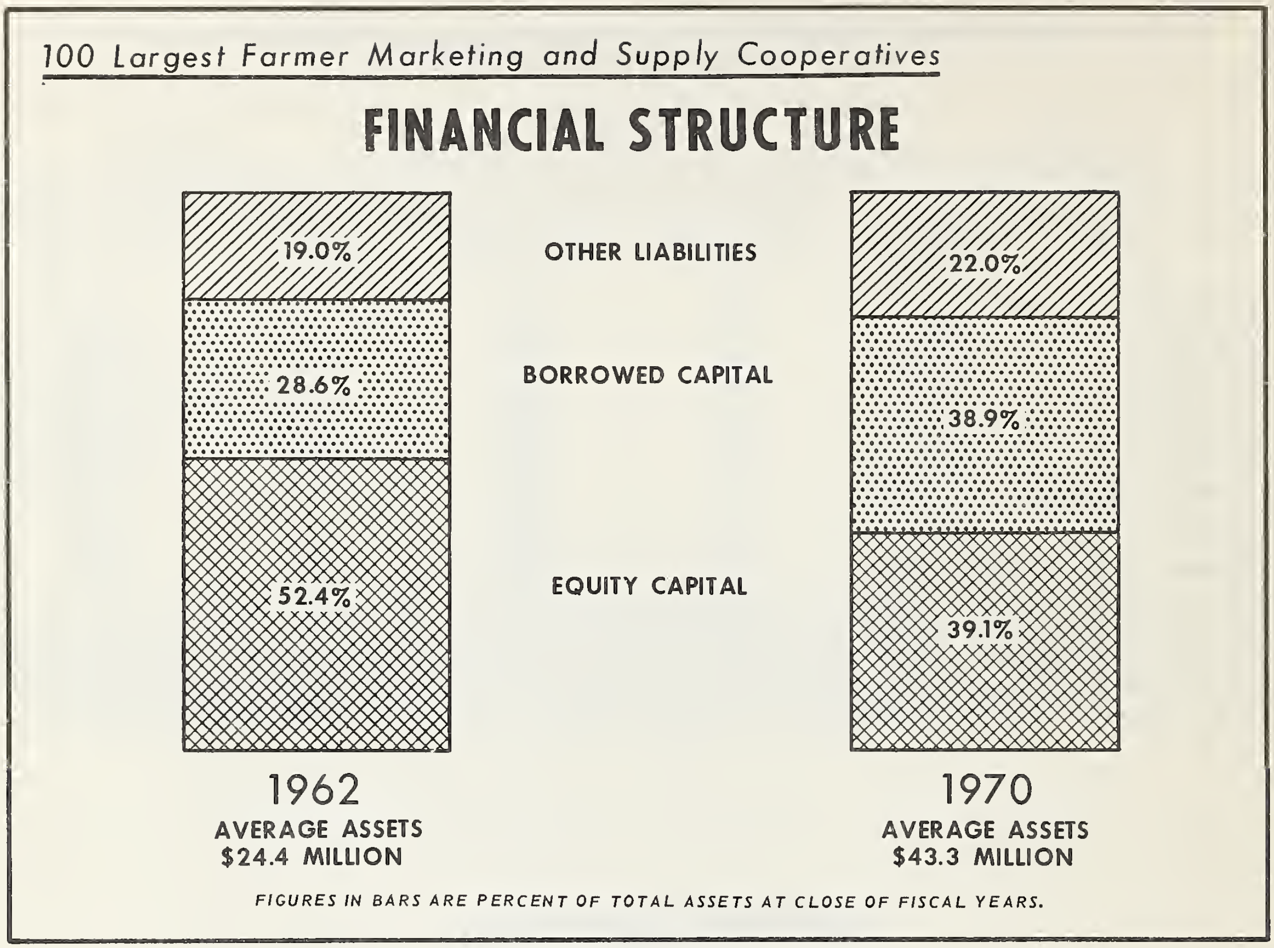

FIGURE 9

Table 32.—Balance sheet data for 100 largest farmer marketing and supply cooperatives, by major function, at close of fiscal years 1962 and 1970

Classification and year	Cooperatives	Total assets	Percentage of total assets represented by —		
			Equity capital	Borrowed capital	Other liabilities
	Number	*Million dollars*		*Percent*	
Farm supply					
1970	16	781	48.3	31.5	20.2
1962	15	374	65.6	19.3	15.1
Marketing					
1970	62	1,835	35.6	36.9	27.5
1962	61	1,018	45.1	29.4	25.5
Marketing/farm supply					
1970	22	1,710	38.7	44.4	16.9
1962	21	974	54.9	31.4	13.7
Total					
1970	100	4,326	39.1	38.9	22.0
1962	97	2,366	52.4	28.6	19.0

Table 33.—Balance sheet data for 84 largest farmer marketing cooperatives, by principal products marketed, at close of fiscal years 1962 and 1970[1]

Classification and year	Cooperatives	Total assets	Percentage of total assets represented by —		
			Equity capital	Borrowed capital	Other liabilities
	Number	*Million dollars*	*Percent*		
Diversified					
1970	14	1,412	37.2	46.4	16.4
1962	14	745	54.4	31.9	13.7
Cotton and cotton products					
1970	6	106	41.6	22.8	35.6
1962	6	80	40.5	31.1	28.4
Dairy products					
1970	19	607	35.1	26.6	38.3
1962	19	318	46.0	22.8	31.2
Fruits and vegetables					
1970	18	593	27.8	53.8	18.4
1962	16	292	35.1	39.2	25.7
Grain, soybeans and products					
1970	14	548	42.2	39.7	18.1
1962	14	347	54.0	33.8	12.2
Poultry products					
1970	3	33	34.4	48.0	17.6
1962	3	34	69.4	17.0	13.6
Rice					
1970	4	77	41.2	29.3	29.5
1962	4	38	50.2	18.9	30.9
Other products[2]					
1970	6	169	55.0	11.8	33.2
1962	6	138	56.4	18.2	25.4
Total					
1970	84	3,545	37.1	40.5	22.4
1962	82	1,992	49.9	30.4	19.7

[1] Of 100 largest cooperatives in 1970, 62 were classified as primarily marketing, 22 as combination marketing/farm supply, and 16 as farm supply. This table includes both groups engaged in marketing shown by principal products marketed for both years.

[2] Includes 2 cooperatives handling livestock and livestock products, 2 handling nuts, and 2 handling sugar products.

Table 34.—Balance sheet data for 100 largest farmer marketing and supply cooperatives, by farm credit districts, at close of fiscal years 1962 and 1970

Classification and year	Cooperatives	Total assets	Percentage of total assets represented by —		
			Equity capital	Borrowed capital	Other liabilities
	Number	*Million dollars*		*Percent*	
Springfield					
1970	8	476	25.8	51.0	23.2
1962	7	275	45.2	33.7	21.1
Baltimore					
1970	7	189	45.5	36.7	17.8
1962	7	120	61.9	26.9	11.2
Columbia					
1970	10	329	44.0	38.2	17.8
1962	9	150	44.3	33.0	22.7
Louisville					
1970	9	336	35.9	43.5	20.6
1962	9	170	57.9	28.6	13.5
New Orleans					
1970	4	178	41.4	43.8	14.8
1962	4	70	59.4	21.5	19.1
St. Louis					
1970	11	841	37.7	40.6	21.7
1962	11	428	45.3	35.6	19.1
St. Paul					
1970	12	602	52.9	23.8	23.3
1962	12	379	60.0	24.6	15.4
Omaha and Wichita					
1970	5	255	46.5	34.3	19.2
1962	5	137	72.1	16.2	11.7
Houston					
1970	6	226	34.0	35.0	31.0
1962	6	116	45.1	23.0	31.9
Berkeley					
1970	22	704	38.4	37.3	24.3
1962	21	421	50.3	26.0	23.7
Spokane					
1970	6	190	22.1	55.9	22.0
1962	6	101	50.2	34.0	15.8
Total					
1970	100	4,326	39.1	38.9	22.0
1962	97	2,367	52.4	28.6	19.0

Equity Capital

Combined equity capital of the 100 largest farmer marketing and supply cooperatives in 1970 amounted to $1,692 million, indicating that their 1970 average equity capital figure was about $17 million. This compares with an average of $13 million in 1962.

As noted earlier, combined equity capital of the cooperatives increased by 32 percent between 1962 and 1970, or an average annual increase of 4 percent. The deflated rate of increase for the 8-year period was only 3½ percent.

Types and amounts of equity capital outstanding at the close of fiscal years 1970 and 1962 are shown in table 35. For the 100 cooperatives as a total group, there were no major changes in types of equity capital used in 1970 compared with 1962. However, the figures do indicate a slightly greater use of equity certificates and credits in 1970 with a corresponding decrease in use of capital stock.

Table 35 shows that in 1970 capital stock continued to be the predominate type of equity capital used by farm supply cooperatives, and that strictly marketing cooperatives rely heavily on equity certificates and credits as the basis for member financing.

Table 35.—Types of equity capital used by the 100 largest farmer marketing and supply cooperatives, by major function, fiscal years 1962 and 1970

Classification and year	Cooperatives	Total equity capital	Percentage of total equity capital represented by —		
			Allocated capital		Unallocated reserves
			Common and preferred stock	Equity certificates and credits	
	Number	*Million dollars*	*Percent*		
Farm supply					
1970	16	378	74.1	15.2	10.7
1962	15	245	83.0	8.8	8.2
Marketing					
1970	62	653	25.7	67.2	7.1
1962	61	460	29.8	59.4	10.8
Marketing/farm supply					
1970	22	661	38.0	43.7	18.3
1962	21	534	42.5	45.5	12.0
Total					
1970	100	1,692	41.3	46.4	12.3
1962	97	1,239	45.8	43.4	10.8

Data on types of equity capital are shown in tables 36 and 37 with the cooperatives classified by major products marketed and by geographic location.

Differences in types of equity issued by cooperatives in the various farm credit districts can be accounted for partly by differences in State cooperative and corporation laws. Leader-

Table 36.—Types of equity capital used by 84 largest farmer marketing cooperatives, by principal products marketed, fiscal years 1962 and 1970[1]

Classification and year	Cooperatives	Total equity capital	Percentage of total equity capital represented by —		
			Allocated capital		Unallocated reserves
			Common and preferred stock	Equity certificates and credits	
	Number	*Million dollars*	*Percent*		
Diversified					
1970	14	525	36.9	41.3	21.8
1962	14	405	42.9	41.8	15.3
Cotton and cotton products					
1970	6	44	22.7	76.2	1.1
1962	6	32	29.6	68.6	1.8
Dairy products					
1970	19	213	18.6	79.3	2.1
1962	19	146	24.6	69.5	5.9
Fruits and vegetables					
1970	18	165	14.3	85.2	0.5
1962	16	102	9.9	86.7	3.4
Grain, soybeans and products					
1970	14	231	49.7	40.0	10.3
1962	14	187	57.2	29.8	13.0
Poultry products					
1970	3	11	5.4	94.2	0.4
1962	3	24	2.7	97.3	([2])
Rice					
1970	4	32	53.6	46.2	0.2
1962	4	19	57.5	42.5	([2])
Other products[3]					
1970	6	93	20.8	53.8	25.4
1962	6	78	19.6	60.6	19.8
Total					
1970	84	1,314	31.9	55.4	12.7
1962	82	993	36.6	51.9	11.5

[1] Of 100 largest cooperatives in 1970, 62 were classified as primarily marketing, 22 as combination marketing/farm supply, and 16 as farm supply. This table includes both groups engaged in marketing shown by principal products marketed for both years.

[2] Less than 0.05 percent.

[3] Includes 2 cooperatives handling livestock products, 2 handling nuts, and 2 handling sugar products.

Table 37.—Types of equity capital used by 100 largest farmer marketing and supply cooperatives, by farm credit districts, fiscal years 1962 and 1970

Classification and year	Cooperatives	Total equity capital	Percentage of total equity capital represented by —		
			Allocated capital		Unallocated reserves
			Common and preferred stock	Equity certificates and credits	
	Number	*Million dollars*	*Percent*		
Springfield					
1970	8	123	34.9	7.9	57.2
1962	7	124	37.9	35.5	26.6
Baltimore					
1970	7	86	49.8	35.6	14.6
1962	7	74	58.8	27.8	13.4
Columbia					
1970	10	144	15.2	79.4	5.4
1962	9	66	22.6	73.3	4.1
Louisville					
1970	9	120	66.9	28.5	4.6
1962	9	98	77.3	19.6	3.1
New Orleans					
1970	4	74	83.0	17.3	(-0.3)
1962	4	42	77.7	20.0	2.3
St. Louis					
1970	11	317	52.4	31.8	15.8
1962	11	194	56.8	32.7	10.5
St. Paul					
1970	12	319	38.8	59.3	1.9
1962	12	227	42.5	54.3	3.2
Omaha and Wichita					
1970	5	119	71.1	9.1	19.8
1962	5	99	73.2	4.0	22.8
Houston					
1970	6	77	14.9	84.8	0.3
1962	6	52	46.2	49.0	4.8
Berkeley					
1970	22	271	15.6	70.2	14.2
1962	21	212	15.3	70.6	14.1
Spokane					
1970	6	42	51.2	65.1	(-16.3)
1962	6	51	34.9	60.9	4.2
Total					
1970	100	1,692	41.3	46.4	12.3
1962	97	1,239	45.8	43.4	10.8

ship in organizing cooperatives over the years has also been a contributing factor in determining cooperative financial structure.

Grain marketing cooperatives, located primarily in the Midwest, use capital stock extensively. Fruit and vegetable marketing cooperatives, on the other hand, located primarily on the west and east coasts, have traditionally issued various types of equity certificates, generally of a revolving nature, instead of capital stock.

Approximately three-fifths of the equity capital of the 100 largest cooperatives in 1970 was acquired by retention of patronage refunds, one-fifth by per unit capital retains, and the other one-fifth by sale of stock or equity certificates.

When unallocated reserves of $208 million (which represented primarily undistributed savings or margins) were subtracted from the $1,692 million total equity capital of the 100 cooperatives, total "allocated" equity capital of $1,484 million remained. This amount represents the total equity capital that had been allocated to or purchased by individual members and patrons, and occasionally nonmembers. How it was acquired is shown in table 38 with the cooperatives classified by major function.

Table 38.—Methods of acquiring allocated equity capital by the 100 largest farmer marketing and supply cooperatives, by major function, fiscal year 1970

Classification	Cooperatives	Total allocated equity capital	Percentage of total allocated equity capital acquired by —		
			Purchase	Patronage refunds retained	Per unit retains
	Number	*Million dollars*	*Percent*		
Farm supply	16	337	25.3	74.2	0.5
Marketing	62	607	8.4	45.8	45.8
Marketing/farm supply	22	540	25.8	74.2	[1]
Total	100	1,484	18.6	62.6	18.8

[1] Less than 0.05 percent.

The 62 marketing cooperatives had $607 million in allocated equity capital in 1970. Eight percent of this was sold outright. Half the remaining 92 percent was acquired by retaining patronage refunds and the other half through patrons' contributions by per unit capital retains from members' sales proceeds.

Capital retains as a method of acquiring capital was insignificant with the 16 farm supply and the 22 combination marketing/farm supply cooperatives. Members of these cooperatives acquired about three-fourths of their equity capital by leaving net savings with the cooperatives as deferred patronage refunds. The other fourth was purchased outright.

As shown in table 39, methods of acquiring equity capital used by cooperatives engaged in marketing varied considerably when the cooperatives were classified by major products marketed. The percentage purchased outright ranged

from a low of less than 1 percent for the six cotton marketing cooperatives to a high of almost 30 percent for the 14 highly diversified cooperatives. These 14 diversified cooperatives were also engaged in farm supply activities.

The 18 cooperatives marketing fruits and vegetables acquired the lowest percentage of their equity through the "patronage refunds retained" route—20 percent—and the highest percentage through the per unit retain route—75 percent.

The 14 grain marketing cooperatives, in contrast, acquired nearly 82 percent of their equity capital by retaining patronage refunds and only 5 percent by per unit retains.

The relative importance of the three methods of acquiring equity capital by cooperatives located in each of the farm credit districts is shown in table 40. The percentage acquired by purchase ranged from a low of less than 1 percent in the Houston and Spokane districts to a high of 73 percent in the New Orleans district. The percentage acquired by retaining patronage refunds ranged from lows of 17 and 18 percent in the Springfield and Berkeley districts to highs of 94 and 96 percent in the Omaha-Wichita and St. Paul districts. Similarly, the percentage patrons contributed by the per unit capital retain method ranged from practically zero in the New Orleans, Omaha-Wichita and St. Paul districts to a high of 68 percent in the Berkeley district.

Table 39.—Methods of acquiring allocated equity capital by the 84 largest farmer marketing cooperatives, by principal products marketed, fiscal year 1970[1]

Classification	Cooperatives	Total allocated equity capital	Percentage of total allocated equity capital acquired by —		
			Purchase	Patronage refunds retained	Per unit retains
	Number	*Million dollars*	*Percent*		
Diversified	14	411	29.9	70.0	0.1
Cotton and cotton products	6	44	([2])	54.2	45.8
Dairy products	19	209	3.9	59.2	36.9
Fruits and vegetables	18	164	5.0	20.2	74.8
Grain, soybeans and products	14	207	13.4	81.6	5.0
Poultry products	3	11	5.4	94.6	([2])
Rice	4	32	9.5	23.8	66.7
Other products[3]	6	69	28.0	33.6	38.4
Total	84	1,147	16.6	59.2	24.2

[1] Of 100 largest cooperatives, 62 were classified as primarily marketing, 22 as combination marketing/farm supply, and 16 as farm supply. This table includes both groups engaged in marketing shown by principal products marketed.
[2] Less than 0.05 percent.
[3] Includes 2 cooperatives handling livestock, 2 handling nuts, and 2 handling sugar products.

Table 40.—Methods of acquiring allocated equity capital by the 100 largest farmer marketing and supply cooperatives, by farm credit districts, fiscal year 1970

Classification	Cooperatives	Total allocated equity capital	Percentage of total allocated equity capital acquired by —		
			Purchase	Patronage refunds retained	Per unit retains
	Number	*Million dollars*	*Percent*		
Springfield	8	53	47.9	16.9	35.2
Baltimore	7	73	19.4	62.2	18.4
Columbia	10	137	38.3	45.4	16.3
Louisville	9	115	26.4	60.2	13.4
New Orleans	4	74	73.0	27.0	[1]
St. Louis	11	267	18.7	73.2	8.1
St. Paul	12	313	3.5	96.1	0.4
Omaha and Wichita	5	95	6.0	94.0	[1]
Houston	6	76	0.1	72.0	27.9
Berkeley	22	232	13.9	18.1	68.0
Spokane	6	49	0.6	83.6	15.8
Total	100	1,484	18.6	62.6	18.8

[1] Less than 0.05 percent.

Borrowed Capital

Since 61 percent of total borrowed capital of all marketing and farm supply cooperatives outstanding at the close of fiscal year 1970 was borrowed by the 100 largest cooperatives, their credit picture does not differ substantially from that reported for all cooperatives in the first section of this report.

Outstanding borrowed capital of the 100 largest cooperatives at the close of fiscal year 1970 totaled $1,683 million. This figure does not include any short term or seasonal borrowings used by the cooperatives during the year that had been repaid by the close of the fiscal year. All certificates fixed as to amount and maturity date were included as borrowed capital.

The average borrowed capital outstanding at the close of fiscal year 1970 for the 100 cooperatives was approximately $17 million. This compares with an average of $7 million for 97 cooperatives at the close of fiscal year 1962, and represents an increase of 141 percent for the 8-year period. The average annual increase was 17.6 percent.

Of the 100 largest cooperatives, four had no outstanding borrowed capital on their balance sheets at the close of their 1970 fiscal years. At the close of their 1962 fiscal years, seven of the 97 cooperatives had no outstanding borrowed capital.

Sources and amounts of borrowed capita

Table 41.—Sources of borrowed capital for the 100 largest farmer marketing and supply cooperatives, by major function, based on amounts outstanding at close of fiscal years 1962 and 1970

Classification and year	Cooperatives	Total borrowed capital	Percentage of total borrowed capital obtained from —			
			Banks for cooperatives	Commercial banks	Issuance of debt securities	Other sources
	Number	*Million dollars*	*Percent*			
Farm supply						
1970	16	246	63.8	18.5	10.6	7.1
1962	15	72	55.4	1.7	26.6	16.3
Marketing						
1970	62	678	68.1	10.7	16.7	4.5
1962	61	299	48.9	11.7	34.0	5.4
Marketing/farm supply						
1970	22	759	56.1	8.1	33.6	2.2
1962	21	306	50.8	6.7	35.7	6.8
Total						
1970	100	1,683	62.0	10.7	23.4	3.9
1962	97	677	50.5	8.4	34.0	7.1

outstanding at the close of fiscal years 1962 and 1970 are shown in table 41. The percentage of total debt capital furnished by the banks for cooperatives increased from just over 50 percent in 1962 to 62 percent in 1970. The percentage furnished by commercial banks also increased—from 8.4 percent in 1962 to 10.7 percent in 1970.

The percentage of borrowings obtained by issuing debt securities, including all maturity-dated certificates of the cooperatives, decreased from 34 percent in 1962 to just over 23 percent in 1970.

Table 41 shows sources and amounts of borrowed capital when the cooperatives were classified by major function. Table 42 shows the same information for only those cooperatives engaged in marketing farm products, by major products marketed. Comparable data with the cooperatives classified by geographic location is presented in table 43.

Table 42.—Sources of borrowed capital for the 84 largest farmer marketing cooperatives, by principal products marketed, based on amounts outstanding at close of fiscal years 1962 and 1970[1]

Classification and year	Cooperatives	Total borrowed capital	Percentage of total borrowed capital obtained from —			
			Banks for cooperatives	Commercial banks	Issuance of debt securities	Other sources
	Number	*Million dollars*	Percent			
Diversified						
1970	14	655	54.5	7.2	35.9	2.4
1962	14	238	40.2	7.8	44.1	7.9
Cotton and cotton products						
1970	6	24	84.5	(2)	(2)	15.5
1962	6	25	66.2	24.8	3.8	5.2
Dairy products						
1970	19	162	49.9	9.2	33.0	7.9
1962	19	72	37.4	6.5	51.0	5.1
Fruits and vegetables						
1970	18	319	67.7	16.4	13.0	2.9
1962	16	115	36.9	9.0	46.5	7.6
Grain, soybeans and products						
1970	14	218	78.9	3.1	16.3	1.7
1962	14	117	87.0	0.6	10.7	1.7
Poultry products						
1970	3	16	51.3	48.0	(2)	0.7
1962	3	6	68.7	14.7	(2)	16.6
Rice						
1970	4	23	85.1	10.5	(2)	4.4
1962	4	7	71.1	28.2	0.7	(2)
Other products[3]						
1970	6	20	68.5	15.8	9.7	6.0
1962	6	25	36.7	48.3	10.3	4.7
Total						
1970	84	1,437	61.8	9.3	25.6	3.3
1962	82	605	49.8	9.2	34.9	6.1

[1] Of 100 largest cooperatives in 1970, 62 were classified as primarily marketing, 22 as combination marketing/farm supply, and 16 as farm supply. This table includes both groups engaged in marketing shown by principal products marketed for both years.

[2] Less than 0.05 percent.

[3] Includes 2 cooperatives handling livestock, 2 handling nuts, and 2 handling sugar products.

Table 43.—Sources of borrowed capital for the 100 largest farmer marketing and supply cooperatives, by farm credit districts, based on amounts outstanding at close of fiscal years 1962 and 1970

Classification and year	Cooperatives with borrowed capital	Total borrowed capital	Percentage of total borrowed capital obtained from —			
			Banks for cooperatives	Commercial banks	Issuance of debt securities	Other sources
	Number	*Million dollars*	*Percent*			
Springfield						
1970	8	243	36.2	9.8	51.3	2.7
1962	6	93	16.8	9.1	68.3	5.8
Baltimore						
1970	7	69	75.1	3.3	19.1	2.5
1962	6	32	64.4	2.7	22.4	10.5
Columbia						
1970	9	126	84.4	4.8	9.2	1.6
1962	8	49	64.5	22.9	10.0	2.6
Louisville						
1970	9	146	60.8	9.4	26.3	3.5
1962	9	49	52.3	2.2	37.9	7.6
New Orleans						
1970	4	78	75.9	0.1	16.4	7.6
1962	4	15	94.2	1.3	4.0	0.5
St. Louis						
1970	11	342	51.8	13.6	31.5	3.1
1962	11	152	51.9	([1])	43.0	5.1
St. Paul						
1970	11	144	62.9	4.2	26.7	6.2
1962	11	93	63.0	1.5	22.5	13.0
Omaha and Wichita						
1970	5	88	88.8	([1])	7.2	4.0
1962	4	22	83.3	0.7	11.0	5.0
Houston						
1970	6	79	82.2	([1])	7.5	10.3
1962	6	27	66.8	8.0	16.4	8.8
Berkeley						
1970	20	262	69.5	24.9	1.2	4.4
1962	19	110	44.8	26.9	18.4	9.9
Spokane						
1970	6	106	54.3	14.8	30.0	0.9
1962	6	35	30.0	5.0	64.1	0.9
Total						
1970	96	1,683	62.0	10.7	23.4	3.9
1962	90	677	50.5	8.4	34.0	7.1

[1] Less than 0.05 percent.

Net Savings and Losses

Combined net savings and losses of the 100 largest farmer marketing and supply cooperatives for their 1970 fiscal years amounted to $253 million. This figure represents 53 percent of total net savings and losses for all 7,289 cooperatives for the year.

If $45 million in qualified per unit capital retains allocated to patrons of the 100 cooperatives, but fixed without reference to net savings, is added to the $253 million net savings figure, the 100 cooperatives had approximately $298 million for distribution to members and patrons based on the fiscal year's business. These figures do not include patronage refunds or per unit retains refunded to patrons during the year as payments from revolving funds allocated in previous years.

Tables 44 and 45 show how the 100 cooperatives distributed their 1970 net savings

Table 44.—Distribution of net savings and losses of the 100 largest farmer marketing and supply cooperatives, by major function, fiscal years 1962 and 1970[1]

Classification and year	Cooperatives	Total net savings and losses	Percentage of total net savings and losses distributed as —					
			Patronage refunds on current year's business		Unallocated reserves	Dividends and interest on equity capital	Income taxes	
			Paid in cash	Allocated			Federal	State
	Number	Million dollars	Percent					
Farm supply								
1970	16	75	49.4	32.4	6.2	2.8	8.9	0.3
1962	15	42	28.6	53.5	6.6	3.9	6.8	0.6
Marketing								
1970	62	95	72.2	22.4	(-1.5)	5.8	1.1	(2)
1962	61	140	62.6	30.5	0.7	5.1	1.1	(2)
Marketing/farm supply								
1970	22	83	32.1	49.2	(-3.3)	12.1	8.8	1.1
1962	21	63	16.1	58.8	2.3	15.7	6.5	0.6
Total								
1970	100	253	52.3	34.1	0.2	7.0	5.9	0.5
1962	97	245	44.8	41.7	2.1	7.6	3.4	0.4

[1] For 1970, this table includes combined net savings of $273 million for 92 cooperatives and net losses of $20 million for the other 8 cooperatives. For 1962, it includes net losses of 3 cooperatives totaling $320,400. Per unit retains fixed without reference to net savings are not included.

[2] Less than 0.05 percent.

Table 45.—Distribution of net savings and losses of the 100 largest farmer marketing and supply cooperatives, by farm credit districts, fiscal years 1962 and 1970

Classification and year	Cooperatives	Total net savings and losses	Percentage of total net savings and losses distributed as —					
			Patronage refunds on current year's business		Unallocated reserves	Dividends and interest on equity capital	Income taxes	
			Paid in cash	Allocated			Federal	State
	Number	*Million dollars*	*Percent*					
Springfield								
1970	8	19	56.7	([2])	12.5	12.1	17.0	1.7
1962	7	42	62.0	24.3	0.8	7.8	5.0	0.1
Baltimore								
1970	7	12	22.0	39.0	12.9	20.7	4.5	0.9
1962	7	6	30.0	32.5	0.8	35.8	0.1	0.8
Columbia								
1970	10	24	45.4	38.3	1.4	11.7	3.0	0.2
1962	9	17	62.6	31.6	(-0.4)	5.7	0.4	0.1
Louisville								
1970	9	10	22.3	63.5	(-11.2)	19.4	4.4	1.6
1962	9	7	3.2	62.3	3.9	25.4	1.0	4.2
New Orleans								
1970	4	11	71.5	24.1	(-4.7)	6.5	2.5	0.1
1962	4	10	35.4	47.6	4.1	9.0	3.6	0.3
St. Louis								
1970	11	59	49.9	21.5	11.9	6.1	10.1	0.5
1962	11	33	28.5	51.4	3.2	7.9	8.8	0.2
St. Paul								
1970	12	46	21.3	68.1	5.7	1.1	3.2	0.6
1962	12	27	10.9	81.4	2.6	2.9	2.0	0.2
Omaha and Wichita								
1970	5	17	23.0	55.8	12.4	0.3	8.5	([2])
1962	5	18	29.3	51.6	5.5	6.5	6.8	0.3
Houston								
1970	6	8	50.9	57.3	(-9.9)	1.6	0.1	([2])
1962	6	9	24.9	66.6	1.0	6.6	0.8	0.1
Berkeley								
1970	22	52	91.9	6.4	(-5.5)	5.7	1.5	([2])
1962	21	67	69.9	22.1	1.9	4.4	1.5	0.2
Spokane								
1970	6	(-5)	52.8	35.5	(-192.2)	3.1	0.8	([2])
1962	6	9	9.5	72.6	0.6	16.3	0.8	0.2
Total								
1970	100	253	52.3	34.1	0.2	7.0	5.9	0.5
1962	97	245	44.8	41.7	2.1	7.6	3.4	0.4

[1] For 1970, this table includes combined net savings of $273 million for 92 cooperatives and net losses of $20 million for the other 8 cooperatives. For 1962, it includes net losses of 3 cooperatives totaling $320,400. Per unit retains fixed without reference to net savings are not included.

[2] Less than 0.05 percent.

and losses. In table 44 the cooperatives were classified by major function and in table 45 by geographic location. Some of the columns in these tables show negative balances because eight of the 100 cooperatives reported net losses for the year. The losses amounted to $20 million. In arriving at the $253 million "net" figure, this $20 million in losses was subtracted from net savings of $273 million reported by 92 cooperatives with savings. Thus, the $253 million net savings and losses for 1970 reflects operating losses incurred as well as savings realized.

For comparison purposes, tables 44 and 45 also show amounts and distribution of net savings and losses of these cooperatives for their 1962 fiscal years. Of the 97 cooperatives included in 1962, 94 had net savings of almost $245 million and three had net losses of $320,000.

Figure 10 and tables 46, 47, and 48 show how the cooperatives with net savings for 1962 and 1970 distributed them. Figures for cooperatives with losses were excluded in preparing these tabulations.

The average net savings for the 92 cooperatives with savings in 1970 were almost $3 million, compared with $2.6 million for the 94 cooperatives with savings in 1962.

The percentage of before-tax net savings distributed as patronage refunds on the current year's business amounted to about 81 percent in

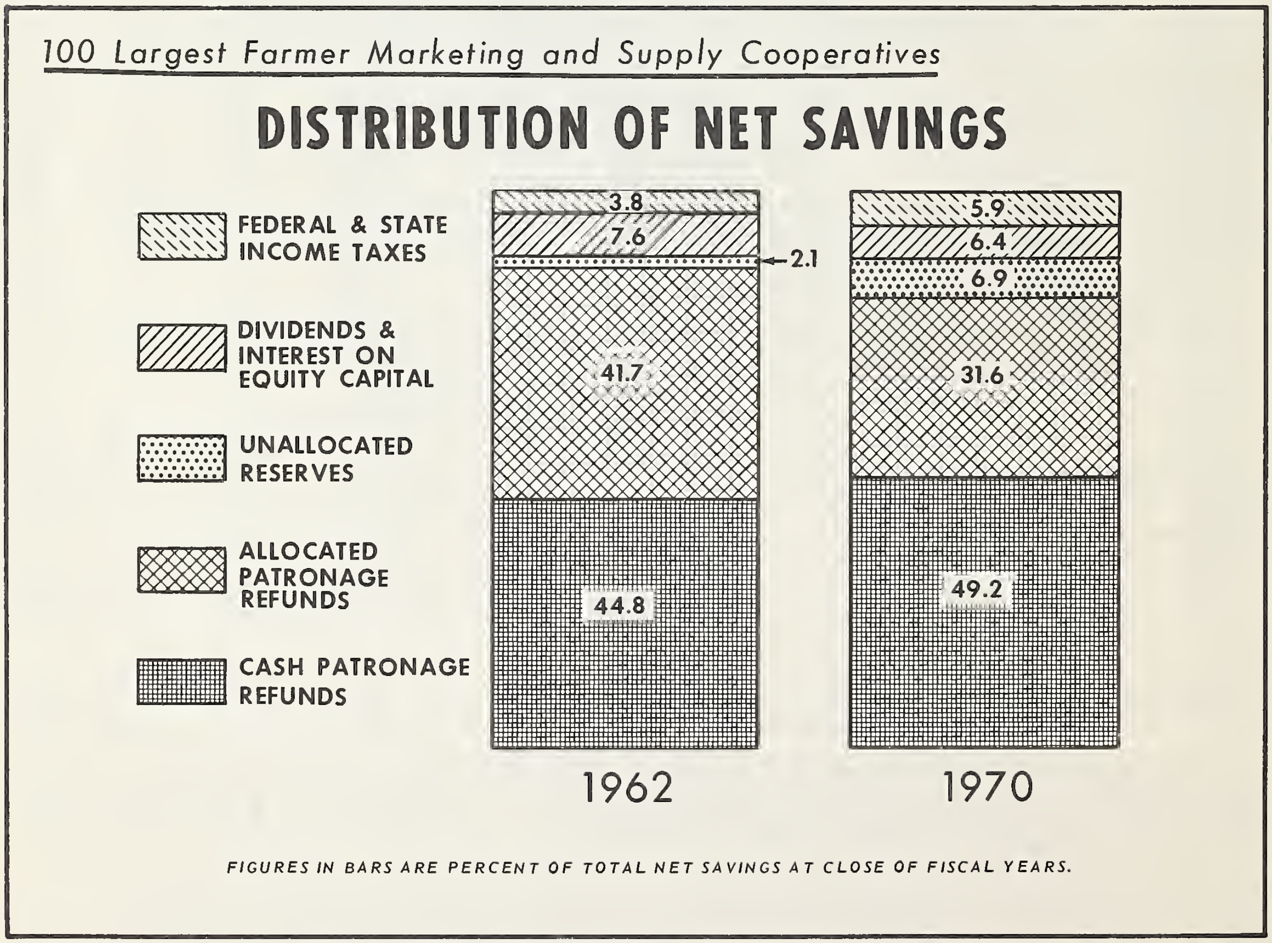

FIGURE 10

Table 46.—Distribution of net savings of the 100 largest farmer marketing and supply cooperatives, by major function, fiscal years 1962 and 1970[1]

Classification and year	Cooperatives with savings	Total net savings	Percentage of total net savings distributed as — Patronage refunds on current year's business: Paid in cash	Patronage refunds: Allocated	Unallocated reserves	Dividends and interest on equity capital	Income taxes: Federal	Income taxes: State
	Number	*Million dollars*	*Percent*					
Farm supply								
1970	15	77	48.4	31.7	8.2	2.7	8.7	0.3
1962	14	42	28.6	53.5	6.6	3.9	6.8	0.6
Marketing								
1970	57	105	69.1	20.0	4.7	5.1	1.0	0.1
1962	59	140	62.6	30.5	0.7	5.1	1.0	0.1
Marketing/farm supply								
1970	20	91	26.8	44.8	8.5	10.9	8.0	1.0
1962	21	63	16.1	58.8	2.3	15.7	6.5	0.6
Total								
1970	92	273	49.2	31.6	6.9	6.4	5.5	0.4
1962	94	245	44.8	41.7	2.1	7.6	3.4	0.4

[1] Of the 100 largest cooperatives, 8 had net losses for 1970, and of the 97 operating in 1962, 3 had net losses. Only the cooperatives with savings are included in this table. Per unit retains fixed without reference to net savings are not included.

1970, compared with almost 87 percent in 1962. For fiscal year 1970, 61 percent of the patronage refunds were distributed in cash, compared with 52 percent in 1962.

The percentage of total net savings distributed as dividends and interest on equity capital was 6.4 percent in 1970 and 7.6 percent in 1962. The percentage retained by the cooperatives as unallocated reserves (tax-paid surplus) increased from 2.1 percent in 1962 to 6.9 percent in 1970. This increase in amounts retained as unallocated reserves accounted to a large extent for the increase in income taxes paid by the cooperatives in 1970. Income taxes for 1962 required 3.8 percent of before-tax net savings, compared with 5.9 percent in 1970.

The distribution figures for 1970 (table 46) show that, on the average, farm supply cooperatives retained a larger percentage of their savings as unallocated reserves than did marketing cooperatives and they consequently paid a larger percentage as income taxes. However, as shown in table 47, the cooperatives marketing grain and dairy products retained almost 10 and 14 percent, respectively, of their 1970 savings as unallocated reserves. These percentages compare with 2 percent, or less, for cooperatives marketing other major farm products. The 12 large multipurpose cooperatives classified as diversified marketing/farm supply retained 9 percent of their 1970 savings as unallocated reserves and paid in excess of 10 percent in Federal and State income taxes.

Table 47.—Distribution of net savings of the 84 largest farmer marketing cooperatives, by principal products marketed, fiscal years 1962 and 1970[1]

Classification and year	Cooperatives with net savings	Total net savings	Percentage of total net savings distributed as —					
			Patronage refunds on current year's business		Unallocated reserves	Dividends and interest on equity capital	Income taxes	
			Paid in cash	Allocated			Federal	State
	Number	*Million dollars*	*Percent*					
Diversified								
1970	12	70	23.1	44.8	9.0	12.7	9.3	1.1
1962	14	52	18.7	54.8	2.0	16.5	7.8	0.2
Cotton and cotton products								
1970	6	13	75.3	23.8	([2])	0.9	([2])	([2])
1962	6	10	55.9	42.1	(-0.1)	2.1	([2])	([2])
Dairy products								
1970	17	21	36.5	42.1	13.9	5.3	2.1	0.1
1962	18	33	42.5	47.5	1.4	7.4	1.1	0.1
Fruits and vegetables								
1970	16	32	89.6	1.5	2.2	5.3	1.4	([2])
1962	16	57	78.9	19.0	(-0.2)	2.2	0.1	([2])
Grain, soybeans and products								
1970	13	28	30.9	50.8	9.6	4.8	3.2	0.7
1962	13	24	32.5	47.2	4.7	9.5	4.7	1.4
Poultry products								
1970	3	2	20.3	78.4	([2])	1.3	([2])	([2])
1962	3	5	0.8	87.6	([2])	11.6	([2])	([2])
Rice								
1970	4	19	90.7	4.1	([2])	5.1	0.1	([2])
1962	4	3	27.4	55.1	([2])	17.5	([2])	([2])
Other products[3]								
1970	6	12	72.7	16.6	0.5	10.1	0.1	([2])
1962	6	19	75.5	18.1	([2])	6.4	([2])	([2])
Total								
1970	77	197	49.5	31.5	6.5	7.8	4.2	0.5
1962	80	203	48.2	39.3	1.2	8.3	2.7	0.3

[1] Of 100 largest cooperatives in 1970, 62 were classified as primarily marketing, 22 as combination marketing/farm supply, and 16 as farm supply. This table includes both groups engaged in marketing by principal products marketed for both years. Only the cooperatives with net savings are included in this table. Per unit retains fixed without reference to net savings are excluded.

[2] Less than 0.05 percent.

[3] Includes 2 cooperatives handling livestock, 2 handling nuts, and 2 handling sugar products.

The figures in table 48 show that patterns of distribution of net savings also varied by geographic location of the cooperatives. Percentages distributed as dividends and interest on equity capital in 1970 ranged from a low of 1 percent or less for cooperatives with headquarters in the St. Paul and Omaha-Wichita districts to a high of over 20 percent in the Baltimore district.

Table 48.—Distribution of net savings of the 100 largest farmer marketing and supply cooperatives, by farm credit districts, fiscal years 1962 and 1970[1]

Classification and year	Cooperatives with savings	Total net savings	Percentage of total net savings distributed as —					
			Patronage refunds on current year's business		Unallocated reserves	Dividends and interest on equity capital	Income taxes	
			Paid in cash	Allocated			Federal	State
	Number	*Million dollars*	*Percent*					
Springfield								
1970	6	20	53.5	(2)	17.6	11.1	16.2	1.6
1962	6	42	62.2	24.2	0.8	7.7	5.0	0.1
Baltimore								
1970	7	12	22.0	39.0	12.9	20.7	4.5	0.9
1962	7	6	30.0	32.5	0.8	35.8	0.1	0.8
Columbia								
1970	9	24	44.6	37.6	3.1	11.5	3.0	0.2
1962	9	17	62.2	31.6	(-0.4)	5.7	0.4	0.1
Louisville								
1970	8	11	19.1	54.5	4.5	16.6	3.8	1.5
1962	8	7	3.2	62.2	4.1	25.4	0.9	4.2
New Orleans								
1970	4	11	71.5	24.1	(-4.7)	6.5	2.5	0.1
1962	4	10	35.4	47.6	4.1	9.0	3.6	0.3
St. Louis								
1970	11	59	49.9	21.5	11.9	6.1	10.1	0.5
1962	10	33	28.5	51.3	3.3	7.9	8.8	0.2
St. Paul								
1970	11	47	21.3	67.9	6.1	1.0	3.2	0.5
1962	12	27	10.9	81.4	2.6	2.9	2.0	0.2
Omaha and Wichita								
1970	5	17	23.0	55.8	12.4	0.3	8.5	(2)
1962	5	18	29.3	51.6	5.5	6.5	6.8	0.3
Houston								
1970	5	9	46.5	51.8	0.1	1.5	0.1	(2)
1962	6	9	24.9	66.6	1.0	6.6	0.8	0.1
Berkeley								
1970	21	60	86.5	5.5	1.8	4.9	1.3	(2)
1962	21	67	69.9	22.1	1.9	4.4	1.5	0.2
Spokane								
1970	5	3	21.5	67.7	3.3	6.0	1.5	(2)
1962	6	9	9.5	72.6	0.6	16.3	0.8	0.2
Total								
1970	92	273	49.2	31.6	6.9	6.4	5.5	0.4
1962	94	245	44.8	41.7	2.1	7.6	3.4	0.4

[1] Only the cooperatives with net savings are included in this table. Per unit retains fixed without reference to net savings are excluded.
[2] Less than 0.05 percent.

Table 49.—Distribution of after-tax net savings *plus* per unit capital retains of the 100 largest farmer marketing and supply cooperatives, by major function, fiscal year 1970[1]

Classification	Cooperatives with savings	Total net savings and per unit retains	Percentage of total net savings and retains distributed as —				
			Dividends and interest on equity capital	Patronage refunds and per unit retains on current year's business			Unallocated reserves
				Cash patronage refunds	Allocated patronage refunds	Allocated per unit retains[2]	
	Number	*Million dollars*	*Percent*				
Farm supply	15	70	3.0	52.7	34.6	0.8	8.9
Marketing	57	148	3.6	49.5	14.3	29.2	3.4
Marketing/farm supply	20	83	12.0	29.4	49.3	([3])	9.3
Total	92	301	5.8	44.7	28.7	14.5	6.3

[1] Of the 100 largest cooperatives, 8 had net losses for the year. Only the 92 cooperatives with savings are included in this table.
[2] Allocated per unit capital retains were fixed without reference to net savings of the cooperatives.
[3] Less than 0.05 percent.

Table 50.—Distribution of after-tax net savings *plus* per unit capital retains of the 84 largest farmer marketing cooperatives, by principal products marketed, fiscal year 1970[1]

Classification	Cooperatives with savings	Total net savings and per unit retains	Percentage of total net savings and retains distributed as —				
			Dividends and interest on equity capital	Patronage refunds and per unit retains on current year's business			Unallocated reserves
				Cash patronage refunds	Allocated patronage refunds	Allocated per unit retains[2]	
	Number	*Million dollars*	*Percent*				
Diversified	12	63	14.1	25.8	50.0	([3])	10.1
Cotton and cotton products	6	17	0.7	57.7	18.2	23.4	([3])
Dairy products	17	31	3.6	24.4	28.2	34.5	9.3
Fruits and vegetables	16	46	3.7	62.8	1.1	30.9	1.5
Grain, soybeans and products	13	29	4.6	29.5	48.5	8.2	9.2
Poultry products	3	2	1.3	20.3	78.4	([3])	([3])
Rice	4	23	4.2	74.7	3.4	17.7	([3])
Other products[4]	6	19	6.2	44.6	10.2	38.7	0.3
Total	77	230	6.7	42.2	26.9	18.7	5.5

[1] Of 100 largest cooperatives, 62 were classified as primarily marketing, 22 as combination marketing/farm supply, and 16 as farm supply. This table includes both groups engaged in marketing by principal products marketed. Of the 84 cooperatives, 7 had net losses for the year. Only the 77 cooperatives with net savings are included in this table.
[2] Allocated per unit capital retains were fixed without reference to net savings of the cooperatives.
[3] Less than 0.05 percent.
[4] Includes 2 cooperatives handling livestock, 2 handling nuts, and 2 handling sugar products.

Unallocated reserves accounted for a low of less than 1 percent of total 1970 net savings in the New Orleans and Houston districts and for a high of over 17 percent in the Springfield district.

The percentage of 1970 net savings, before taxes, distributed as patronage refunds on the current year's business ranged from lows of 54 and 61 percent in the Springfield and Baltimore districts to over 95 percent in the Houston and New Orleans districts. The percentage of patronage refunds on the current year's business paid in cash in 1970 ranged from lows of 24 to 29 percent in the St. Paul, Spokane, Louisville, and Omaha-Wichita districts to highs of 94 and 100 percent, respectively, in the Berkeley and Springfield districts.

Tables 49, 50, and 51 show distribution of 1970 after-tax net savings of the 100 largest cooperatives with savings plus their allocated per unit capital retains fixed without reference to net savings. The total figure of $301 million shown in these tables represents total distribution by the cooperatives.

Except for $19 million which was retained as unallocated reserves and $17 million which was distributed to holders of equity capital as dividends and interest, the $301 million was distributed to patrons based on their current year's business with the cooperatives. The remaining $256 million was distributed as follows: 51 percent as cash patronage refunds, 33 percent as allocated patronage refunds, and 16 percent as allocated per unit capital retains.

Only eight of the 100 largest cooperatives issued any allocated patronage refunds or per unit capital retains for the year's business as "non-qualified" notifications for Federal income tax

Table 51.—Distribution of after-tax net savings *plus* per unit capital retains of the 100 largest farmer marketing and supply cooperatives, by farm credit districts, fiscal year 1970[1]

Classification	Cooperatives with savings	Total net savings and per unit retains	Percentage of total net savings and retains distributed as —				
			Dividends and interest on equity capital	Patronage refunds and per unit retains on current year's business			Unallocated reserves
				Cash patronage refunds	Allocated patronage refunds	Allocated per unit retains[2]	
	Number	*Million dollars*	*Percent*				
Springfield	6	19	11.6	55.8	([3])	14.3	18.3
Baltimore	7	12	20.8	22.1	39.2	4.9	13.0
Columbia	9	26	10.8	41.7	35.1	9.5	2.9
Louisville	8	14	13.0	15.0	42.7	25.8	3.5
New Orleans	4	11	6.7	73.4	24.7	([3])	(-4.8)
St. Louis	11	59	6.1	50.2	21.6	10.2	11.9
St. Paul	11	45	1.0	22.0	70.4	0.3	6.3
Omaha and Wichita	5	16	0.4	25.1	61.0	([3])	13.5
Houston	5	12	1.1	34.6	38.5	25.8	([3])
Berkeley	21	84	3.5	62.2	4.0	29.0	1.3
Spokane	5	3	5.0	17.9	56.4	18.0	2.7
Total	92	301	5.8	44.7	28.7	14.5	6.3

[1] Of the 100 largest cooperatives, 8 had net losses for the year. Only the 92 cooperatives with net savings are included in this table.

[2] Allocated per unit capital retains were fixed without reference to net savings of the cooperatives.

[3] Less than 0.05 percent.

purposes. Less than 1 percent of total allocations were issued as "nonqualified" notices. Most of these small amounts became nonqualified allocations because a few patrons failed to endorse and cash their patronage refund checks in the 90-day period allowed by Internal Revenue Service regulations for cooperatives using this method of patron consent.[5]

Revolving Fund Financing

In recent years, more and more cooperatives have come to realize the need for a greater degree of permanency in their capital structure. Many are moving in this direction by modifying the traditional revolving fund method of financing. Others are offering more fixed-income (and in some cases fixed-maturity) certificates to their members, patrons, and outsiders as investments.

What is the traditional revolving fund method of financing? Essentially, it is a plan whereby equity capital supplied by the current year's patrons, either by per unit capital retains or from savings and margins realized in operations, is used to retire the oldest outstanding revolving fund capital furnished a cooperative by patrons of earlier years. The significance of the name "revolving fund" becomes apparent only after the cooperative has reached the stage where it is in financial position to start retiring its oldest revolving fund investments. Ordinarily, a revolving fund does not become fully operative until members and patrons have supplied more capital than their cooperative needs for efficient operation.

Revolving fund financing combines two basic principles: (1) Continued investment by members and patrons in the capital structure from year to year according to use; and (2) continued retirement of these investments with the oldest investments being retired first.

As a financing device the revolving fund method is peculiarly and distinctly cooperative. Unlike businesses where profits are shared in proportion to investment, the savings of cooperatives are distributed according to patronage or the individual use patrons make of their cooperatives. Early cooperatives were faced with the problem of how best to acquire equity capital so that the proportion furnished by each member was relative to his patronage. The revolving fund plan of financing was originated and developed by the early cooperatives as a solution to this problem.

However, in recent years various cooperative leaders have been seriously questioning whether the revolving fund financing system has outlived its usefulness. When a cooperative has been in business for many years and a portion of its membership has become inactive, when deliveries of products to the cooperative have become irregular, and when the revolving fund period has been of extended duration, substantial financial inequities among members arise. Also, as cooperatives look to the future and embark on programs to modernize and expand their operations and facilities, many realize that more capital will be needed in the years ahead than can be acquired through the traditional revolving fund approach.

As a solution, some cooperatives have switched to a permanent or base capital plan of financing, which is a modification of the traditional revolving fund plan. In general, it provides for the freezing of existing revolving funds, an independent determination of total capital requirements, and an annual determination of individual requirements, generally based upon relative patronage over a specified number of years. There is no separate retention or revolvement of funds, but essentially *net* retain

[5] Neely, D. Morrison, Legal Phases of Farmer Cooperatives, Part II, Federal Income Taxes, Farmer Cooperative Service, U.S. Dept. Agr., Information 69, November 1970.

or revolvement depending upon the extent to which a member's existing capital measures up to the requirement allocated to him.

In addition to correcting member inequities in capital investments, this modified revolving or permanent capital plan also offers possibilities for minimizing the impact of 1962 and 1966 Internal Revenue Service tax regulations. Other advantages relate primarily to the improvement of predictability and reliability of capital sources.

USE OF REVOLVING FUND FINANCING

Of the 100 largest cooperatives, 49 were using the traditional revolving fund method of financing to some extent in 1970. At the close of their 1970 fiscal years, these 49 cooperatives had $541 million in revolving fund capital. Of their total equity capital of $645 million, 84 percent was being handled on a revolving basis.

Of the 49 cooperatives using the revolving fund method of financing, six were classified as farm supply cooperatives, 35 as marketing cooperatives, and eight as marketing/farm supply cooperatives.

For all 49 cooperatives, the revolving fund period averaged a little over 9 years. However, the funds in farm supply cooperatives revolved approximately every 7½ years, compared with about 8½ years for the marketing group and 11 years for the marketing/farm supply group.

The 35 marketing and eight marketing/farm supply cooperatives combined had a revolving fund period of 9½ years. When the 43 in the combined group involved in some marketing were classified by farm products marketed, the revolving fund periods were:

Classification	Years
Nuts	3.5
Cotton and cotton products	7.5
Fruits and vegetables	8.4
Rice	9.1
Dairy and dairy products	9.7
Grain and grain products	9.8
Diversified	11.1
Poultry and poultry products	15.8

Two of the cooperatives had reorganized in recent years, but indicated their intention to revolve their equity capital after an adequate capital structure had been attained. Their revolving periods had not yet been established.

Three of the cooperatives technically had no equity capital in 1970. However, all three of these cooperatives did have maturity-dated certificates outstanding which represented members' investments in the cooperatives.

These three cooperatives, along with several other cooperatives that did have some equity capital in 1970, were relying on interest-bearing, maturity-dated certificates instead of nonmaturity dated revolving fund certificates as a method of financing.

Seventeen of the 100 largest cooperatives that originally had revolving capital reported no regular revolving funds in 1970. Instead, they were using the modified revolving fund or permanent capital plan described earlier.

Many of the 100 largest cooperatives that still had some equity capital handled on a revolving fund basis at the close of fiscal year 1970 indicated they did not plan to continue using the regular revolving fund method of financing after the member investments in these funds were revolved out.

Other large cooperatives were issuing interest-bearing common or preferred stock that will not be recalled on a revolving fund basis but will be redeemed according to a prearranged formula or simply upon demand of patrons. Some of the cooperatives reported a formal stock or equity repurchase plan, others simply maintained a market for their stock or certificates. In some

cases the nonrevolving stock or equity certificates were eligible for redemption only after a specified number of years after issue and were to be redeemed at that time only upon request, not automatically.

Other large cooperatives not using a revolving method of financing stated that they were committed to their members to either find a market for their equity certificates or to redeem for cash up to a specified percentage of the total amount outstanding in any one year. Some had a policy to redeem all equities upon presentation. Others redeemed equity capital of any type only at the discretion of the board or to settle estates.

Some of the large cooperatives allowed patrons to exchange their equity securities for maturity-dated debt securities at the principal amount or par value plus accrued interest to the date of exchange. Others had established a policy of redeeming to a limited extent some of these debt certificates in advance of their maturity dates, if requested. Others would redeem them early only upon death of holder.

Federal Income Tax Status

In 1962 and again in 1966, substantial revisions were made in the Federal income tax laws relating to the tax treatment of farmer cooperatives and their patrons. These revisions were designed primarily to ensure that amounts received by cooperatives in the course of their business activities with their patrons are included in computing the income tax of either the cooperative or the patron, thus subjecting these amounts to a current single tax.[6]

Briefly, present Federal income tax laws provide that for net savings distributed as patronage refunds to be currently deductible by a cooperative, the patronage refunds must be paid in cash or redeemable in cash within 90 days from the date issued *or* the patrons must consent to take into account the total amount of their patronage refunds ("qualified" allocations) in determining their own taxable income currently. In addition, at least 20 percent of the total patronage refunds must be paid currently in cash to the patrons. If these conditions are not met, the cooperative includes the amount of the patronage refunds ("nonqualified" allocations) in its current taxable income and when it pays the refunds in cash the cooperative may deduct the amount paid.

Farmer marketing and supply cooperatives qualifying under Section 521 of the 1954 Internal Revenue Code are also allowed to deduct from their gross income amounts paid as limited dividends on their capital stock or other equity capital, and amounts of nonpatronage income (i.e., interest and rental income) distributed to patrons on a patronage basis.

Section 521 status is not automatic. Cooperatives must apply and if qualified, a ruling or determination letter is issued by the Internal Revenue Service. There are strict requirements that must be met in order to qualify. Among these requirements are that:

(1) The business with nonmembers may not exceed 50 percent of the cooperative's total business, and purchasing for persons who are neither members nor producers may not exceed 15 percent of the cooperative's total purchasing.

[6] Neely, D. Morrison. Legal Phases of Farmer Cooperatives, Part II, Federal Income Taxes. Farmer Cooperative Service, U. S. Dept. Agr. Information 69, November 1970. This bulletin discusses in depth the Federal income tax treatment of farmer cooperatives and their patrons.

(2) The nonmembers are to be treated the same as members in business transactions.

(3) If organized on a capital stock basis, substantially all its stock (other than preferred nonvoting stock) must be owned by producers marketing their products or purchasing their supplies through it.

(4) The dividend rate on capital shares must not exceed the legal rate of interest in the State of incorporation, or 8 percent a year, whichever is the greater, based upon the value of the consideration for which the capital shares were issued.

(5) In the case of federated cooperatives, the principle of "looking through" to ultimate patrons of member associations in determining eligibility applies.

Of the 100 largest farmer marketing and supply cooperatives, 62 had Section 521 status in 1970 and 38 did not. Classification of the cooperatives *with* and *without* Section 521 status was as shown in table 52.

Of the 62 cooperatives with Section 521 tax status, some, primarily cooperatives handling farm supplies, indicated that they planned to relinquish it beginning with fiscal year 1971. Others had relinquished their status during the last 5 or 6 years. In fact, most of the 100 largest farm supply cooperatives have now relinquished their 521 status. In most cases, the cooperatives voluntarily gave up their status because of the restrictions it imposed or the troublesome technical and economic problems of compliance.

Table 52.—Classification of the 100 largest farmer marketing and supply cooperatives, by Section 521 tax status, fiscal year 1970

Classification	62 Cooperatives with Section 521 status	38 Cooperatives without Section 521 status
	Number	
Farm supply	5	11
Marketing—total	44	18
Cotton and products	6	--
Dairy products	14	4
Fruits and vegetables	10	7
Grain and products	3	6
Rice	4	--
Other	7	1
Marketing/farm supply—total	13	9
Diversified	8	6
Grain and products	3	2
Other	2	1
Total	62	38

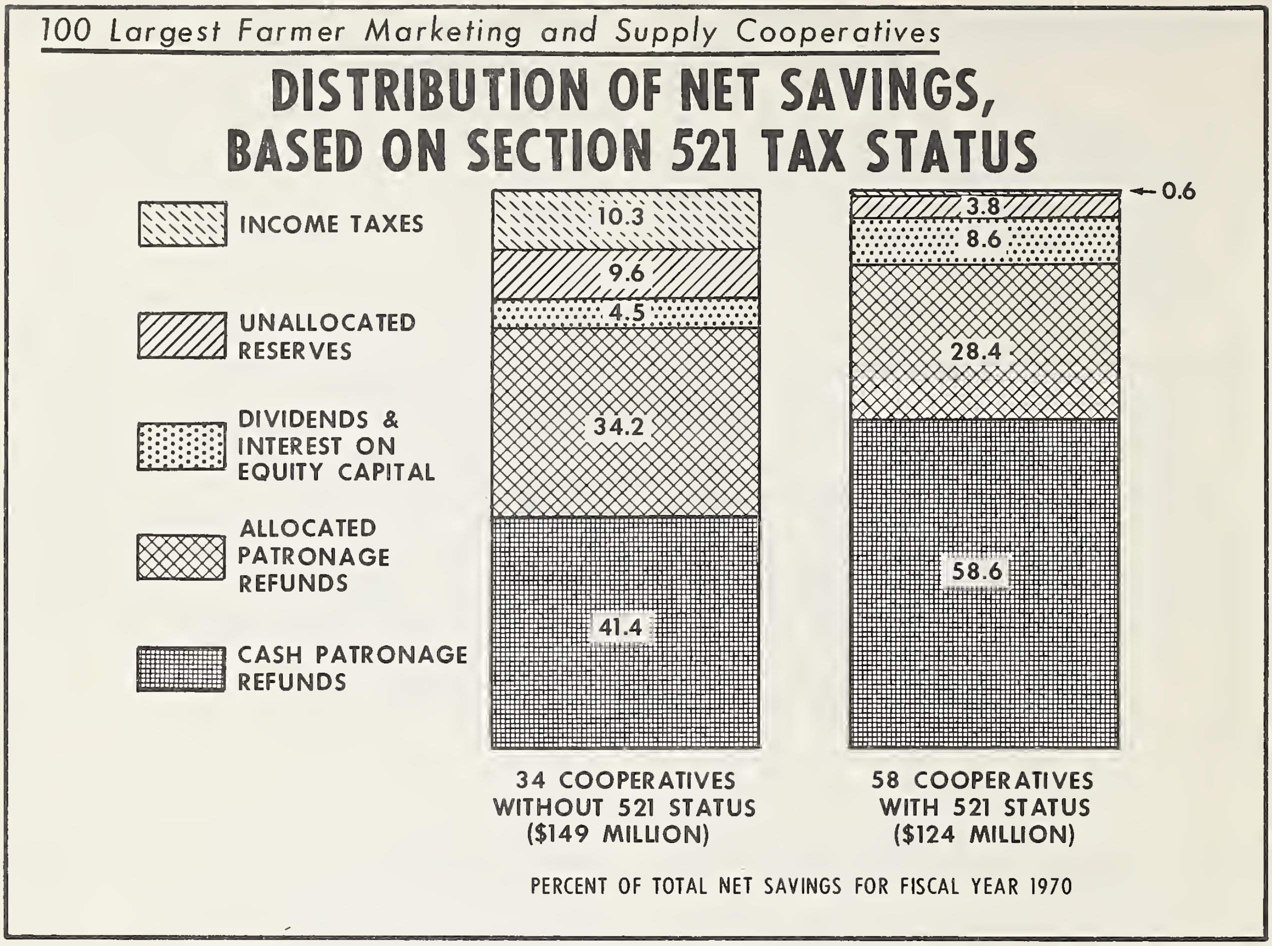

FIGURE 11

DISTRIBUTION OF NET SAVINGS BY TAX STATUS

Of the 100 largest cooperatives, 92 had 1970 net savings amounting to $273 million. Combined savings of the 58 cooperatives with Section 521 tax status amounted to almost $124 million, or an average of $2.1 million per organization. Combined savings for the 34 cooperatives without 521 status amounted to over $149 million—an average of $4.4 million.

Four of the 62 cooperatives with Section 521 status and four of the 38 without such status reported net losses for fiscal 1970. Losses for these eight cooperatives are not included in the $273 million net savings figure.

Figure 11 provides a comparison of the distribution of 1970 net savings made by the 58 cooperatives with Section 521 tax status and the 34 cooperatives without that status. Dollar figures are shown in table 53.

The 58 cooperatives with Section 521 tax status retained 32 percent of their 1970 net savings in the business—28 percent as allocated equity capital and 4 percent as unallocated reserves. In comparison, 44 percent was retained in the business for the 34 cooperatives without Section 521 tax status—34 percent as allocated equity capital and 10 percent as unallocated reserves.

Per unit capital retains, fixed without reference to net savings, provided an additional or alternate method of acquiring member capital

for some of the cooperatives—primarily marketing cooperatives with Section 521 tax status. Patrons of the 58 cooperatives with 521 status provided an additional $35 million in equity capital in 1970 through per unit retains, compared with $8 million furnished by patrons of the 34 cooperatives without 521 status.

The cooperatives with Section 521 status distributed 87 percent of their before-tax net savings as patronage refunds, compared with about 76 percent for the cooperatives without 521 status. Savings distributed as patronage refunds were greater for the cooperatives with 521 status partly because they included in their patronage refunds both the savings resulting from business with nonmembers and income from nonpatronage sources.

Cooperatives without Section 521 status are not permitted to deduct nonpatronage income in arriving at their taxable income. And, in

Table 53.—Distribution of net savings of 100 largest farmer marketing and supply cooperatives, by Federal income tax status, fiscal year 1970

Item	58 Cooperatives with Section 521 tax status[1]		34 Cooperatives without Section 521 tax status[2]	
	$1,000 dollars	*Percent*	*$1,000 dollars*	*Percent*
Total net savings before income taxes	123,754	100.0	149,532	100.0
Income taxes:				
State income taxes	105	0.1	1,127	0.7
Federal income taxes	632	0.5	14,304	9.6
Total income taxes	737	0.6	15,431	10.3
Net savings for distribution after income taxes	123,017	99.4	134,101	89.7
Dividends and interest on equity capital	10,682	8.6	6,759	4.5
Net savings for distribution after income taxes and dividends	112,335	90.8	127,342	85.2
Patronage refunds on current year's business				
Paid in cash	72,498	58.6	61,935	41.4
Allocated—qualified	34,404	27.8	51,022	34.1
Allocated—nonqualified	783	0.6	118	0.1
Total patronage refunds	107,685	87.0	113,075	75.6
Unallocated reserves	4,650	3.8	14,267	9.6

[1] Of the 62 cooperatives with Sec. 521 tax status, 4 had net losses for the year and are excluded.

[2] Of the 38 cooperatives without Sec. 521 tax status, 4 had net losses for the year and are excluded.

general, the cooperatives elected to distribute savings only to members and pay income taxes on nonmember nonpatronage income. They retained the after-tax portion of these amounts as tax-paid surplus or unallocated reserves.

The 58 cooperatives with Section 521 tax status also distributed a greater portion of their patronage refunds in cash (67 percent) than did the 34 cooperatives without Section 521 status (55 percent). As already mentioned, the use of per unit capital retains as one method of acquiring equity capital by many of the marketing cooperatives with Section 521 tax status was the major reason for this difference. Cooperatives relying on per unit retains as their principal source of equity capital generally distribute more of their patronage refunds in cash.

The cooperatives without Section 521 status distributed less than 5 percent of their 1970 net savings as dividends and interest on capital stock and other equity capital, compared with almost 9 percent for the cooperatives with 521 status. Only cooperatives qualified under 521 status can deduct amounts paid as dividends on capital stock and other equity in computing their Federal income taxes.

The 34 cooperatives without Section 521 tax status paid over 10 percent of their total 1970 net savings as Federal and State income taxes—9.6 percent as Federal and 0.7 percent as State. In comparison, income taxes of 0.6 percent of total net savings were paid by the 58 cooperatives with Section 521 status—0.5 percent as Federal and 0.1 percent as State.

Another reason for the discrepancy in taxes paid by cooperatives with Section 521 status and those without is the difference in their taxable income. Disregarding loss carryforwards, tax credits, and other adjustments, the 1970 taxable income for the two groups of cooperatives was as follows:

Item	Cooperatives with Section 521 status	Cooperatives without Section 521 status
	Thousand dollars	
Nonqualified patronage refunds	783	118
Unallocated reserves	4,650	14,267
Dividends and interest on equity	--	6,759
Federal income taxes	632	14,304
Total taxable income	6,065	35,448

APPENDIX I. METHODOLOGY

The information included in this report is based on the results of a nationwide survey. The sample consisted of two parts: (1) the 100 largest cooperatives, and (2) a random sample consisting of 667 of the other 7,189 active cooperatives listed with Farmer Cooperative Service at the time of the study.

The 100 largest cooperatives were selected from the total group of 7,289 cooperatives based on their 1970 dollar volume of business. However, all cooperatives with total assets of less than $5 million were excluded. Those excluded because of size limitation on assets included several livestock sales agencies operating on a commission basis with comparatively small capital requirements and a few cooperatives involved almost exclusively in bargaining activities.

It was considered necessary to include all of the largest 100 cooperatives in the study to arrive at meaningful national estimates for all 7,289 cooperatives because they represented such a large percentage of total dollars involved.

The 667 sample cooperatives were selected at random from the list of 8,522 cooperatives covered by the 1962 Farmer Cooperative Service finance study plus a random sample of new cooperatives added to the lists between 1962 and 1970. The sample group consisted of 132 farm supply cooperatives (6 percent of the total population), 323 marketing cooperatives (13 percent of the total population), and 212 combination marketing and farm supply cooperatives (9 percent of the total population).

The sample size of each group was determined by the variation within the group in 1962 and by the proportion of total assets of each group included in the assets of the 100 largest cooperatives.

Data for the 667 sample cooperatives were expanded to arrive at national estimates for all 7,189 cooperatives. This was accomplished by comparing 1962 and 1970 data for the sample cooperatives by functional and commodity groups to determine average percentage changes since 1962 for total assets, equity capital, borrowed capital, and net savings and losses. Estimates for the 7,189 cooperatives were then added to the comparable figures for the largest 100 cooperatives to arrive at national estimates for all 7,289 cooperatives in 1970.

The national estimates for all 7,289 cooperatives, including the 100 largest, are provided in the first section of this report. Separate data covering only the 100 largest cooperatives are presented in Section II.

APPENDIX II. DEFINITION OF TERMS

Many terms have different meanings to different people. This applies to terms pertaining to capital and financing and those used to classify cooperatives. To ensure a common ground of understanding with readers, the following definitions of terms used in this study are presented.

Terms Used to Classify Cooperatives

A farmer cooperative is a business enterprise that is financed, controlled, and operated by the agricultural producers that it serves; does more than half its business with members; and provides for one vote per member *or* for a limit

on its dividends on capital stock of 8 percent a year or the legal rate in the State, whichever is higher.

Farm supply cooperatives are those farmer cooperatives whose farm production supply business constitutes two-thirds or more of their total annual dollar volume. Many farm supply cooperatives also market some farm products and perform related services for their members.

Marketing cooperatives are those farmer cooperatives with two-thirds or more of their total dollar volume derived from the sale of farm products for patrons. Many also purchase some farm supplies and perform related services for their members. Marketing cooperatives may be further classified by principal products marketed.

Marketing/farm supply cooperatives are those farmer cooperatives engaged in both marketing and supply activities with each substantial enough that the other does not account for two-thirds of total dollar volume. These multipurpose cooperatives may be further classified by major farm products marketed.

Bargaining cooperatives are those farmer cooperatives engaged primarily in bargaining for price of farm products. Many also process and/or market some farm products for their members. Cooperatives engaged in bargaining are not classified separately in most of the tables in this report from those performing other marketing functions.

Terms Pertaining to Capital

Assets are items of value owned by cooperative businesses.

Liabilities are amounts owed by cooperative businesses to their creditors. All claims against cooperatives which are fixed as to amount and maturity date represent a liability or debt capital.

Net worth, or equity capital, is the excess of the value of assets over liabilities. It represents the investment or ownership interest of members and patrons in their cooperative. In this report, equity capital has been grouped into the following categories.

1. *Common and preferred stock* refers to securities issued as shares of ownership. Stock is usually divided into more than one class primarily to control voting rights and to vary income and risks of stockholders.

2. *Equity certificates and credits* includes all *allocated* equity capital listed on the balance sheets of the cooperatives other than capital stock. The equity certificates carry no fixed maturity date and are subordinate to all debt instruments. They are listed on the balance sheets under numerous names, such as certificates of interest, certificates of ownership, revolving fund certificates, participation certificates, patronage certificates, and retain certificates.

   Equity certificates are issued primarily to members and patrons through the process of making capital retains or allocating patronage refunds. As such, these certificates represent deferred patronage refunds or per unit capital retains payable in cash at some future date. Often they are handled on a revolving fund basis; that is, the oldest outstanding certificates are retired first. Some cooperatives pay dividends on these equity certificates; but, in the majority of cases they do not bear interest or only bear interest at nominal rates.

   Allocated credits or letters of advice are included in this report with equity certificates. Even though certificates, as such, are not issued, capital credits are allocated to individual members and patrons. Such credits are acquired almost entirely through per unit capital retains or allocation of patronage refunds. Each patron is notified, usually by letter, at the close of each fiscal year of the amount allocated to him on the books of the cooperative as a result of his business transactions with the cooperative during the year. These credits are handled by some cooperatives on a revolving basis in the same manner as if equity certificates were issued. In other

cooperatives they represent a more permanent type of allocated reserve. All allocated reserves have been classified as allocated capital credits.

Membership certificates were also included with equity certificates and credits for this report. Such certificates represent less than 1 percent of total equity capital and are issued by nonstock or unincorporated cooperatives to members as an indication that the required membership fee has been paid.

3. *Unallocated reserves* primarily represent amounts set aside from net margins to be kept in the business. All equity reserves not subject to allocation to patrons were placed in this classification. Included were such balance sheet accounts as general reserves, expansion reserves, education reserves, reserves for losses, earned surplus, tax-paid surplus, and retained earnings.

"Reserve for depreciation," a valuation reserve, is customarily not listed under equity capital, but is shown as a contra-entry to, and in the same section of the balance sheet as the related fixed assets. However, a few cooperatives, primarily those having grain storage facilities, carried accelerated depreciation reserves on their balance sheets as equity capital. In these instances, the amounts shown as accelerated depreciation reserves were included with unallocated reserves.

Also included with unallocated reserves were the following types of unallocated equity capital: All paid-in, contributed, and donated capital; capital surplus resulting from unclaimed checks, "called" stock, and other certificates for which State statutes of limitations had expired; appraisal surplus; capital reduction surplus; unallocated equity capital resulting from consolidation; and, minority interest of a few cooperatives in consolidated subsidiaries.

Capital retains refer to investments made by patrons of farmer cooperatives based on the physical or dollar volume of products marketed through the cooperatives. The capital or per unit retain method of financing is used primarily by marketing cooperatives. For example, an association may retain for capital purposes 6 cents per hundredweight of milk or 1 cent per box of fruit. Only those retains used by cooperatives for clearly defined capital purposes, rather than those deductions used to cover operating expenses, were classified as capital retains.

Patronage refunds retained applies to patronage refunds on which ultimate redemption in cash is deferred. Net savings retained in the business as noncash patronage refunds are the major source of equity capital of farmer cooperatives.

Borrowed capital, or *borrowed funds*, refers to any capital borrowed, whether long-term or current, on a formal *loan* basis. All other liabilities, such as accounts payable and deferred and accrued items (including commission company accounts and past-due billings and deferred paper) are excluded.

Debt securities is used in this report to cover such debt instruments as certificates of indebtedness and debenture bonds, and also borrowings on the basis of individual notes payable, including such items as lease purchase contracts and mortgage notes. All certificates fixed as to amount and maturity dates, including those issued to members and patrons, were included as debt securities under borrowed capital regardless of whether they were sold outright to investors or issued only to patrons as evidence of retained patronage refunds or capital retains.

In general, debt securities were of an unsecured nature—not protected by any lien on the property of the cooperatives issuing them.

Other sources of borrowed funds includes borrowings by the cooperatives from other farmer cooperatives, including loans made by federated cooperatives to local member associations. Other sources also includes insurance companies, marketing and supply companies, State and national farm organizations, commercial credit corporations, credit unions, and employee pension or trust funds.

OTHER FCS PUBLICATIONS AVAILABLE

Farmer Cooperatives in the United States. FCS Bulletin 1.

Statistics of Farmer Cooperatives, 1969-70. FCS Research Report 22.

Legal Phases of Farmer Cooperatives:
  Sample Legal Documents, FCS Information 66.
  Part II, Federal Income Taxes, FCS Information 69.
  Part III, Antitrust Laws, FCS Information 70.

Handbook on 20 Major Regional Cooperatives. Handling Supplies, 1968, 1969, and 1970. FCS Research Report 20.

Financial Structure of Farmer Cooperatives (1962). FCS Research Report 10.

Financial Structure of Regional Farmer Cooperatives (1962). FCS General Report 133.

Financial Structure of Regional Farm Supply Cooperatives (1962). FCS General Report 124.

How Adjustable Revolving Fund Capital Plan Works. FCS General Report 111.

Revolving Fund Method of Financing Farmer Cooperatives. FCS General Report 41.

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